Q1 FY25, trading update
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Transcript

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Overview

Brian Cassin
Chief Executive Officer, Experian

Introduction

Hello everybody and welcome to our Q1 trading update call. I'm here as usual with Lloyd, who will take you through the trading performance after my opening remarks.

Highlights

Organic revenue growth in Q1 was 7% which is a good result, in line with our expectations. Total group revenue growth was 8% at constant currency and 7% at actual rates. We've started the year well, consistent with our expectations, reflecting successful execution of our growth strategy. A special call-out goes to Consumer Services which achieved double-digit organic revenue growth, and encouraging performances across all geographies, taking our total installed free membership base to over 185m.

Regional Performance

North America

Touching now on the regional Q1 highlights, and starting with North America, which again showed sequential improvement overall, delivering organic revenue up 8%. Both B2B and Consumer Services delivered well, up 7% and 10% respectively.

B2B benefited from good balance across the portfolio, including strength across Automotive and Health. In CI/BI we saw positive contributions from Experian Ascend and mortgage. The unsecured credit environment has not changed a lot since we last spoke, with lender standards continuing to tighten although at a less rapid pace and with some signs now that delinquencies are approaching their peak. Automotive performance was helped by recovery in new vehicle sales and increased dealer marketing activity, while Health delivered a very good start to the year for bookings supported by our expanded product suite.

Double-digit growth in Consumer Services is a great performance which illustrates how diversified our platform has become. Progress in the insurance Marketplace has been excellent. We've expanded our insurance panel and are launching new features like insurance rate monitoring, and while credit marketplace volumes are still soft, we're very confident of our market positioning for when credit recovery comes. Other revenue streams also contributed positively with paid membership benefiting from higher enrolments, which follows the investments we've made into new features. We also had another good quarter for databreach services wins.

Latin America

Turning now to Latin America which delivered organic revenue growth of 5%. Overall we continue to make a lot of strategic progress to introduce our integrated platforms, enter new growth markets and expand our consumer propositions. It was a slower quarter for B2B, up 1% due to deal-phasing and the recent floods in Brazil and we expect an improved performance in Q2. The build-out of our fraud and analytical services is progressing well and with further progress in our agribusiness vertical.

Consumer Services delivered a very strong quarter, up 24%. We've established multiple new revenue streams, which have steadily diversified the business and provide new avenues for growth. Q1 included strong contributions from payments and our credit Marketplace, while Limpa Nome also continues to perform well, benefiting from platform enhancements, for example enabling consumers to view their debts in one place, and make it easier to pay them off.

UK and Ireland

The UK&I delivered organic revenue growth of 2%, with B2B up 2% and Consumer Services up 4%. In B2B, growth was supported by our superior data quality, programme of new product introductions and through the pursuit of our platform strategy. The macro is still subdued, with credit card lenders having been out of new credit origination for the best part of 18 months. There isn't a widespread pick-up yet in new credit issuance with activity varying a lot by lender.

UK Consumer Services has made very positive progress. We've made a lot of enhancements to our platform which have enhanced the experience for both consumers and lenders, and it's driven growth across both subscription services and Marketplace.

EMEA and Asia Pacific

EMEA and Asia Pacific has had a positive start to the year delivering organic revenue growth of 7%. We continue our focus on generating higher quality revenue, with a larger innovation contribution and less dependence on one-off software contracts. It was also good to see growth in the quarter fairly evenly spread across our focus markets.

With that, I will now hand it over to Lloyd.

Financial Review

Lloyd Pitchford
Chief Financial Officer, Experian

Trading Performance

Thanks Brian, and good morning everyone.

As you've seen we delivered good growth in line with our expectations for Q1, with organic revenue growth of 7%.

We saw consistent growth in the US bureau, strong double-digit growth in North America Consumer Services supported by the Insurance Marketplace and elevated Data Breach activity. Latin America Consumer Services also delivered another strong double-digit quarter.

B2B globally grew by 5%, whilst B2C grew very well at 11%.

Acquisitions added 1% to growth and exchange rates were a 1% headwind following depreciation in the Brazilian Real, meaning total revenue at actual exchange rates grew by 7%.

Regional Performance

North America

Turning to the performance by region and beginning with North America, where we delivered strong organic revenue growth of 8%, with 7% in B2B and double-digit growth in Consumer Services.

Within B2B, the bureau excluding mortgage profiles grew 2% in the quarter, the performance of the core bureau was consistent with last year remaining broadly in line with Q3. Credit conditions have remained stable and in line with our expectations. As we mentioned back in May, there was some strong Batch and Archive activity during Q4 which was one off in nature. Ascend delivered another double-digit quarter, through both new client wins and growth of our existing client base. Mortgage profile revenue grew 37% on a volume decline of 12%, the difference coming from the FICO price increase. This takes total organic bureau growth to 6%.

Elsewhere in Data, Automotive had another strong quarter growing 9% and Targeting delivered good growth in a challenging market for offline Retailers, as we added new logos in digital which continued to grow double-digit.

Decisioning grew 8% organically, with Health growing 8% following good growth in Coverage Discovery and Claims products, just under half of the growth came from new product innovation. Decision Analytics grew well in the quarter as Fraud and ID delivered double-digit growth.

In Consumer Services, Marketplace grew well following the continued strength in our Insurance proposition. Credit Marketplace declined during the quarter, similar to the trends we saw in Q4. Premium subscription delivered good growth following higher acquisition volumes. There were also some one-off Data Breach deals in the quarter, we're seeing more activity here in recent quarters but given the nature of the business it's very difficult to forecast.

Latin America

Moving on to Latin America, which grew 5% organically, with 1% growth in B2B and 24% in Consumer Services.

In B2B, there was some deal phasing in the current and prior year within the bureau. There was also an impact from the severe flooding in Rio Grande do Sul, which limited credit activity in the region. In our strategic focus areas outside the bureau, we continued to see strong growth in Fraud and ID, following key client wins in the quarter. Our Agribusiness also delivered double-digit growth and we've added around 90 more clients versus this time last year. We expect more normalised levels of growth for B2B in Q2.

Consumer Services had another strong quarter with growth of 24%. Limpa Nome continued the trend of double-digit growth and our payments platform also grew 36%.

UK and Ireland

Turning to the UK, which grew 2% organically.

B2B was up 2%, with the bureau growing 4%, we continued to perform well in a subdued credit market with good contributions from Ascend and Fraud and ID.

Consumer Services delivered organic revenue growth of 4%, with growth across both subscription and Marketplace.

EMEA and Asia Pacific

Moving on to EMEA and Asia Pacific, organic revenue grew 7%, which grew 7%, with good progress across most markets through a combination of a strong bureau performance in Southern Europe and growing innovation revenue across the region.

Guidance

Turning now to our near-term expectations. Our full year expectations are unchanged from what we discussed in May.

And with that, let me hand back to Brian.

Summary

Brian Cassin

Thanks Lloyd, and so in summary, we've started the year well with Q1 in high single-digits and we continue to make excellent strategic progress. Our prime focus is on investing behind a range of growth initiatives, several of which are adding materially to our performance. Unsecured credit is still a headwind but this will at some point reverse and accrete to our growth. We are on track to deliver our full year guidance and the medium term outlook we've previously shared.

Finally, I would like to acknowledge the announcement today that Craig Boundy has decided to leave Experian and will step down as COO and from our board in August. Craig is joining McAfee, the US-based online protection company as their CEO. Craig has made a huge contribution to Experian, and we're immensely proud of what we have achieved together. We wish Craig well on this next chapter of his career journey and thank him for what he has done for Experian.

With that, we will open up the line for questions – operator?

Questions and Answers

Simona Sarli, Bank of America

First of all, could you please provide more colour on the impact from flooding and contract phasing in Brazil? What is supporting your conviction that growth might return to double digits from Q2 onwards?

Secondly, can you give a little bit more colour on your expectations going into Q2 and the growth trajectory for the rest of the year? In particular, what are the moving parts that might bring Experian to the low end of the guidance, considering the boost that you are benefiting from in data breach solutions, versus the high end of your guidance?

The last question is related to the Supreme Court overturning the Chevron doctrine in June. Can you please elaborate on the implications from your point of view for the US credit bureau sector and in particular for Experian?

Lloyd Pitchford

I will start with your second question, Simona, about the expectations for the rest of the year. We expect each quarter to be in the 6% to 8% range. If you look back, we have been pretty firmly in these levels with stable lending conditions. We expect really to be there until we see a more broad-based recovery in lending. Where we are in the range is really about the things that would drive some variation. If we see a drop-off in the data breach activity, which has been quite firm, that will put us at the lower end of the range, from 6% to 7%. If we see it continuing firm, we will probably be in more of the middle of the range. We would probably need some other strengthening in some other bit of the portfolio to be at the top end of the range. The expectation just now is the middle of that range and to remain in the range in each quarter.

In terms of Brazil, we were expecting a slower first quarter based on our forecast of the deal pipeline and deal phasing. What came on top of that was the weakness in relation to the flooding. If you have been watching the news, it is a very extensive flood in the south of the country across a huge area. We think that the impact of the floods was somewhere between 1% and 2% off the Brazil growth rate. The underlying lending conditions in Brazil are progressing well. Lending volumes are growing. We have some caps and collars around volume growth in some of our contracts. A number of our contracts are at the cap in terms of volume. We have a good line of sight of those deals for the second quarter. We expect that to come back to more normalised levels in the second quarter and we expect Brazil to grow very well, in the double digits, over the full year.

Brian Cassin

On the Supreme Court, I think you are referring to the decision in *Loper Bright*, which really looks at where the power resides between courts and regulatory agencies and how they can interpret federal law. In the short term it does not really have much of an impact. In the longer term, we think it will probably bring a bit more certainty into interpreting how federal law will be applied and less variability in terms of new rules that can be imposed by the agencies when there is a lack of clarity.

Summing it up, I think it is a good decision from our perspective in terms of understanding where we stand with respect to legislation and perhaps giving a little bit less room for interpretation for new rules to be introduced by the regulators. Overall it is pretty positive, I would think.

Suhasini Varanasi, Goldman Sachs

As we head into the first-half results in November, can you please talk about the margin expansion phasing between first half and second half and any FX drag that we need to think about on a reported basis?

Lloyd Pitchford

In terms of FX, there is no change to the guide of 0% to 1%. I think we have started probably nearer the 1%, given that we have seen a little bit of weakness in the Brazilian real, but we will see how that progresses during the year.

In terms of margin, it has obviously been only a few weeks since we announced the enhanced margin progression in our mid-term framework. We are very confident in our ability to deliver that within this revenue range. As always, we manage margin quite closely to the full year. We will obviously report first half in

November, but the underlying ability to control margin within our framework is pretty high. You have seen that in recent years.

Annelies Vermeulen, Morgan Stanley

Firstly, on databreach, you have clearly had another good quarter there. I appreciate it is difficult to predict how that will pan out through the year. You have mentioned one-off deals in the quarter, which you have mentioned in previous quarters as well. I am just curious. Has that databreach activity accelerated in Q1 relative to what you saw in Q3 and Q4 or has it remained or continued roughly at the same levels that we have seen in the last couple of quarters?

My second question is on acquisitions. I do not think you have announced anything new for Q1 – correct me if I am wrong – but how is the pipeline looking for Q2 and beyond? Are you still confident in completing further deals in the current fiscal year?

Lloyd Pitchford

On databreach, what we saw in the second half of last year was a step-up in activity. Anybody reading the press will have seen that there were a lot of data-based intrusions into companies that we helped support. We saw outsized growth from Q3 last year. It was contributing about 1% to Group growth per quarter. That has continued into the first quarter of this year. It is hard to forecast. If it carries on at this level, as we have every indication that it will, that is probably more likely in the middle of the range for Q2. If we see it soften, it is probably more in the 6% to 7% range. It is hard to forecast, but we are seeing a period of elevated activity.

On acquisitions, we have done a couple of small acquisitions in the first quarter. Those were small bolt-ons. We acquired an Auto Insurance marketplace business in Brazil. We are following the strategy of being able to add on different products and services, now that we have built the audience in the consumer business, following the great success that we are having in North America. We have also added an employment and income verifications business in Brazil. Those were very small bolt-ons.

In terms of the pipeline, it is strong. As we said at the full year, this is a good time for us to have capacity, as we have seen valuations get to a more normalised level. Our focus will be, as you would expect in the core areas of our business, anything with a data asset, anything where there is a fraud technology that we can distribute or anything that we can put on our consumer platform. The pipeline continues to be quite strong.

Sylvia Barker, JP Morgan

Could you talk about the insurance marketplace? Could you maybe update us on the revenue run rate and the scale of the revenue growth that you are seeing at the moment?

Brian Cassin

As a general comment, we are extremely pleased with how that is developing. It is exceeding our expectations. We talked a little bit about this at the year end. There were some pretty significant milestones last year in terms of building that out, and we are starting to see that come to fruition.

Lloyd Pitchford

Last year, we saw some particular product introductions in that marketplace, where we were able to provide a very differentiated service to consumers who are searching for auto insurance. We saw some major carriers go into the marketplace for the first time. With the coming together of those things, you can see the progress that we are making.

The annualised run rate from the quarter is now up to $80 million, so it more than doubled in the quarter. It is quite strong. We have been growing out carrier coverage state by state as we went through the second half of the year. What this shows is the power of the audience that we have built in our consumer business, and the ability now to add different products and services to help consumers in their financial lives. As I mentioned in my remarks, in the membership products, we have added some moneysaving types of services that have enhanced the inflow of new members into the subscription products. Now that we have built this audience, it will start to be a very powerful platform as we add new products and services.

Rory McKenzie, UBS

Firstly, on the lending conditions in the US overall, which you described as stable – that is about where you have been for a year now – can you share any more detail on the clients or the market segments? For example, what is happening in those lower deciles of consumers as delinquencies have picked up recently?

Secondly, just to follow up on that last question from Sylvia, can you give us some more stats on the US consumer audience? What is the total number of active users you have in the US? Can you say how many individuals have engaged with the insurance marketplace so far?

Brian Cassin

There is really no change in terms of lending conditions. When we think back, it is only nine weeks since we spoke to you, so there is nothing material to add. As you can see from the macro stats, there is a slight uptick in delinquencies at the lower end of the credit spectrum, but nothing really significant. We see stabilisation across the rest of the piece, but no material acceleration at this stage. We are not going to see that in the short term. It needs a bit more time to play out, but it definitely will play out and we expect that to come back. From our perspective, this really is just a timing thing.

Lloyd mentioned Brazil, where, despite the fact that B2B was weaker in Q1 due to some one-off factors, we are seeing volumes starting to move in the right direction. It is easy to forget that, in 2024, we had a very strong performance in Brazil, but the underlying credit conditions are quite difficult, so that is potentially a very important development on the horizon.

Even if we look across at the UK, it is also significant to see that the marketplace in the UK has started to move into positive territory, which tells you that credit issuance is starting to happen again. It is not widespread. It is patchy. It is not consistent across the piece, but it is a bit of an early sign. Overall, we feel okay where we are. It is more or less the same, but maybe a few green shoots here and there.

Lloyd Pitchford

On auto insurance, we have been rolling out to incremental states. Just last week, we launched a major new advertising campaign for the insurance portal. We will let that progress over the summer and give you some more stats around how it is progressing, probably at the half year. We are really pleased with progress. The product is very differentiated, with the ability for a consumer, in some areas and with some bits of the product, to through-click apply for an insurance product and to do real-time monitoring of comparator rates on the insurance hub. It is a very differentiated product and, as we get all the state coverage completed and more carriers onboard, we are quite excited about how it will continue to grow. There will be more detail, probably at the half year.

Andrew Ripper, Liberum

Just building on Rory's questions about the macro, I think I am right in saying that your 6% to 8% guidance for this year is largely based on self-driven factors. You have not assumed any particular improvement in credit conditions. What is your view in terms of how reductions in interest rates may affect the business, not necessarily just the next couple of quarters but over the medium term?

Brian Cassin

Reducing interest rates is going to have a beneficial impact on the business, because it is going to have a positive impact on credit issuance. However, we also need to look at how this works. As interest rates increased, there was a delayed impact. As interest rates decrease, I suspect that there will also be a delayed impact. Credit conditions are the same, but the credit industry remains in a very good position. As we said in May, people are looking, anticipating and waiting to see what gives them the confidence to start moving forward. There are signs that some people are doing that, but, as I said, it is not widespread, which is why we say that the conditions are more or less the same as they were.

Ultimately, you are right. As interest rates decrease, we will start to see that activity pick up. It is difficult to pin that down to a quarter, but it is inevitable that that will happen.

Lloyd Pitchford

There is no typical cycle. When you look back, from the point that you see the first reduction in base rates, it is anywhere between nine and 18 months until you see very broad-based recovery in origination activity. It is hard to forecast and there is not really a typical cycle. That is why we think that it is not this year but next year that we start seeing that, but we will see what happens as we start to move into a more reducing rate environment.

Andrew Ripper

Just coming back to insurance, Lloyd, you mentioned that the run rate is up to $80 million now. What visibility or expectation do you have for how that might evolve over the next 12 months or so in terms of where the run rate could get to?

Lloyd Pitchford

This is the power of having established an audience and being relevant to consumers in their financial lives. What we have proved out is that a credit intent membership base that we have built can convert into other areas of financial wellbeing, including insurance. To do that, you have to have product and to be able to talk to people with something that is unique, and we think that we can do that. We will have more information on that as the year progresses. We have been building out the state-by-state coverage and the panel, and we have just launched this advertising campaign, so we will have a bit more visibility of that as we come into the half year. We are certainly well ahead of the expectations that we had when we developed the product and signed the other partnerships this time last year.

Andrew Ripper

So there may be a bit more colour on that at the interims. Just coming back to breach, it has been a significant benefit. You called it out as a one-percentage-point benefit for the last couple of quarters. Can you just reaffirm that? In terms of how the revenue is recognised and the nature of the support that you are providing to people who might have been affected by a breach, does it tend to be for just three to six months or do you have a bit more visibility than that? How does that relate to how you recognise revenue on those breach-related deals?

Lloyd Pitchford

There are two types of deals. There are a very small number of very long-term deals. These are very large, very public deals, where the support would be for somewhere between five and eight years. That revenue tends to be recognised over the period, because of the quite long-dated nature of the support.

Other deals tend to be shorter. We recognise revenue based on our cost curve. There is a lot of cost upfront, where we onboard clients and consumers who are supported. It tends to be quite a frontend-loaded revenue recognition, so maybe a one-year or two-year deal with the majority of revenue in the first two quarters. That is why it can be a bit lumpy.

Arthur Truslove, Citi

I can see that the US mortgage business has done extremely well in terms of organic growth. That is pricing-driven to compensate for what FICO has done. Is it right to think that your strategy remains to maintain gross margin? How should we think about the margin implications of a scenario where volumes are down 12 and pricing is up around 50 or so? That is the first question.

Secondly, I do not think that you have precisely provided it, but are you able to give us an idea of the growth in the different verticals within consumer, including subscription? You mentioned that insurance has done really well. Could you give us a bit more precision on the consumer lending vertical?

Lloyd Pitchford

This is inside North America. Subscription growth was at the low end of mid-single-digit. We released some new moneysaving products. This is a subscription manager hub that has resonated very well, so the inflow of new consumers has been quite strong this last quarter. It takes a little while to feed through into revenue, so that was good. Credit marketplace was down about 10%, which is where it has been for the last few quarters, due to the soft lending environment. The insurance marketplace more than doubled, given my comments earlier, and there was very strong growth in databreach.

In terms of US mortgage, volume continues to be weak, down 12%, as I mentioned. We think it will be a similar sort of volume weakness in the second quarter. It is clearly a higher-margin vertical for us, but it is very small. It is good margin, but it does not really move the needle at a group level, given its size. We remain very confident in the overall enhanced margin framework that we announced a few weeks ago, and that is all taken account of in that margin guidance.

Ryan Flight, Jefferies

Firstly, on Health, you are quite strong. Could you give us some more colour? Have you won some new mandates and new hospitals, or are there any particular trends that stand out?

Secondly, could you give us a bit more colour on EMEA and APAC, particularly Australia and New Zealand? I have some interest in illion, so some more colour would be helpful.

Lloyd Pitchford

Health continues to grow well, as you can see. We have quite high penetration, about two-thirds, of physician practices and hospitals. Most of the growth comes from new innovations and growing out the services to the existing client base rather than new wins. Some of our competitors have had some travails in the last six months, which is helping with new customer acquisition, so we are quite hopeful for continued progress in Health.

On EMEA and APAC, there is good growth across the region. We are seeing particular strength in the Decisioning area in Australia and New Zealand, where we have a very strong position that we have built up over time. We announced some time ago the proposed acquisition of another bureau there, which we are still going through the regulatory approvals for. We would expect some more news on that about the middle of the year. We have made good progress and it has been a very stable performance across EMEA and Asia Pacific over the last 18 months.

James Rose, Barclays

I have a question on LATAM B2B. Could you help us understand the lumpiness in growth rates and contract signings that we saw across different quarters? As a quick example, data and decisioning activity in Q4 was really strong last year, so why is there not a more obvious carryover into the first quarter from those signings? If we could help us understand that, that would be great.

Lloyd Pitchford

If you think about the business, you have the core volumetric bit of the business. A lot of the contracts that we have in Latin America have caps and collars. You have seen quite a lot of good volume growth in Brazil over the last 18 months, and you have a number of contracts now that are capped out in terms of the volume. A number of those renew in the second quarter, so we expect to see that release.

In terms of the bundles, we are increasingly selling mixes of bundles across data and decisioning, which has some lumpy recognition and some ratable recognition. It is really just the mix of that set of clients, plus the caps and collars in the contract that mean that the phasing can be a little lumpy. We expected that in Q1. We did not expect the floods. The two coming together gives us a slightly weaker position in Q1, but we will back to high single digit/low double digit for the rest of the year.

Simon Clinch, Redburn Atlantic

I just wanted to cycle back to the US core CI/BI bureau growth ex-mortgage. Given the environment that we are in and the performance that you have delivered in the fourth quarter, is there potential for those contributors to the outsized growth in the fourth quarter to happen at any time this year? Is that something that we need to think about?

Secondly, I just wondered if you could comment on the competitive environment in Brazil. Have we seen any real changes? Are any competitors starting to improve performance? Does that even feature on your radar?

Brian Cassin

Dealing with Brazil first, the simple answer is that we do not see any changes to the competitive environment there, so we continue to progress our business very well. Lloyd will probably have a bit more detail on that. It is worth remembering that we tend to perform more strongly in the back half of the year than in the first half of the year. We called it out in May in terms of Q4. Some of that is due to contract renewals and so on.

Lloyd Pitchford

There are a number of types of business that we do. Some of it is one-off in nature – things like archives and retro jobs that we do and look back. As I mentioned in the fourth quarter, if the sales team are pushing for the line, you can have an enhanced sale of some of those more one-off-type activities. If you exclude that and look back at the CI/BI excluding mortgage, we were 2% Q1 last year, 2% Q2 and 3% Q3. We skip Q4, and Q1 we were 2%. We have been very firmly in this very stable, soft lending environment for 15 to 18 months now, and our expectation is that that continues until you see a broader-based recovery. That is all embedded in the 6% to 8% guidance that we had.

Can you see one-off income at any time? Yes, of course. It is just not what we are forecasting and, to get out of this range, you need to see a broader improvement in lending conditions. That is how we are thinking at the moment.

Ben Wild, Deutsche Bank

Apologies, in some respects, to come back again to the soft and stable lending environment that you describe. Lloyd, you have talked previously about just over $1 billion of revenue being short term and volumetric in nature and perhaps more variable in the very short term. When you talk about the soft and stable lending environment, are you implying that revenue is still falling at stable growth rates or are you saying that, within that batch of revenue, growth rates are starting to flatten?

As an adjunct, what absolute level of growth are you seeing in that batch of revenue and, given the stable environment you described, when would you expect the growth rate to start flattening out?

Lloyd Pitchford

The way I would best describe it is that, while in aggregate it is stable, it continues to be quite volatile at an individual lender level. That tells you that there is no broad, aligned sentiment in the market. You see individual lenders come in and go out of origination activity at different times. You can see that probably most clearly in the marketplace inside consumer services, where we are still down 10% in the first quarter.

In our core bureau, where we have more of a weighting to tier 1 and more of a weighting to prime, you can see that we are more stable and at about flat volumes now. Within a range that we are able to forecast, we expect this to continue for some time. I do not think we are expecting to see any material change from that. We will keep you up to date as we go through the quarters, but 6% to 8% is as good a guide as I can give right now, until we see something broader happen to the lending environment.

Concluding remarks

Brian Cassin

Thank you everybody for joining today and thanks for all your questions. I wish you all a good day and we look forward to speaking to you again in November for our half-year results. Thank you.

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