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Ashish Sabadra:

Hi, I'm Ashish Sabadra and I cover information services company here at RBC. Excited to host Lloyd, CFO of Experian. Lloyd, thanks for giving us this opportunity.

Lloyd Pitchford:

Pleasure. Thanks, Ashish.

Ashish Sabadra:

Thank you. So you've been the CFO of Experian for 10 years now. Can you just talk about how the company has evolved and how do you think about it for the next 10 years?

Lloyd Pitchford:

Yeah, 10 years, time flies. I would say that the company's pretty unrecognizable from what it was 10 years ago. We've taken quite a progressive approach to how we've really reinvented the company bottom up. Some very big strategic decisions we took earlier in our 10 years of leadership team, particularly around the commitment to the consumer business, which we think in the long run will be the biggest, deepest source of option value that we can create. The development of the Ascend platform, which is growing in its space, the build out of the health business. But probably most importantly the development of the culture of the company, which technology is available to everybody.

Ultimately, the data we have through our consumer business and other platforms, and the culture of innovation that we've developed as a company is by far the key thing that we focus on to generate long-term value. So, yeah, it's been quite a 10 years, but we're coming in actually to a really interesting time in the company's history because a lot of the things we've been inventing and scaling over the last five to 10 years are in their scaling part of that history. So it's quite an exciting period for the company.

Ashish Sabadra:

That's great. We do want to talk about the strategic decisions, the innovation, products, a few things that you mentioned. But before we delve into that, maybe if we talk about the state of consumer lending. Just if you want to talk about what's happening with consumer lending, both from autos, cards, consumer lending in general, but also mortgages if you want to provide a lay of the land, but also some of the things that are going on, bad cutting rates, but the longer term rates keep going up. A better... election uncertainty cleared out, procyclical environment potentially next year. How do we put all of this together and how should we think about it?

Lloyd Pitchford:

So how long have we got? There's a lot in there. I think if you think about the lending environment, clearly I put mortgage to one side because that's subject to I guess very particular drivers, but you have quite a subdued overall lending environment on average. And it's important to say on average because you see individual clients both full risk on and full risk off full periods, but on average it's quite subdued.

If you look this last quarter versus a quarter a year ago, we moved from very modestly negative into stable, I would say very modestly positive in this last quarter, but no broad-based recovery and lending, and that takes time. Our history of data shows that from the first reduction in the Fed rate through to a broad-based recovery and lending take anywhere between nine to 18 months depending on the cycle. And the reason for that is obviously the Fed's reduced rates because inflation is getting under control and the economy is a bit weaker and it takes a little while for peak unemployment to be priced, for people to really understand what's going to happen in the labor market before they're, on average, everybody confident to be risk-on originating.

So, we're in that phase just now. Given a normal environment, you would expect that sometime next year is hard to call at the exact time. Clearly monetary policy, fiscal policy plays into that and you've seen that with some of the recent movement in rates. But it's clear to us that we've come past peak rates and lending will recover at some point.

Ashish Sabadra:

That's very helpful color. Again, I know mortgage is a very, very small for strategic revenue for you. I think less than 2%, but any thoughts on mortgage?

Lloyd Pitchford:

Yeah, it's 2 to 3%. I mean, clearly you have a broad range of US population fixed at very low rates on long-term mortgages. So, as you see rates come down, clearly there'll be portions that are unavailable for refinancing, but you've got a lot of mortgages fixed at very low rates. So, I think we'll see how that develops. For us, this last quarter, we saw mortgage volumes go positive first time we've seen that for a while, so we were 4% up on volumes, quite modest. We'll see what happens with given all the recent movements in rates for the next period, but I think it's up from here, but it might not be straight line.

Ashish Sabadra:

Yeah. No, that's helpful color. Just going back to the non-mortgage piece of the business, as you mentioned, you only saw a modest improvement in the lending activity, but you still saw pretty material acceleration in your growth for US bureaus ex-mortgage from 2% to 6%. What's really driving that growth?

Lloyd Pitchford:

Yeah, I think if you look at that business, there are a lot of things that we do underneath that and I would never draw a straight line through any quarter in any direction. So if you go back, we went up to 8% in Q4, down to two in Q1, up to six in Q3, in Q2, so I think I'd characterize it as stable. Within there, you can see some volatility around batch processes and other things. I think we're in this zone until we see that broad-based recovery in lending. We've got strength in RSN platform, that's good. We've seen our Clarity business, which is a short-term lending bureau, perform quite well. But to break out of this zone, I think you really need that broad-based lending recovery that we talked about.

Ashish Sabadra:

That's great. I wanted to focus on those two things that you mentioned, Ascend and Clarity. So, Ascend, first we'll start with that. Ascend modules have been growing double digit. Can you talk about what's driving that growth? How do you think about the pipeline for that business, the addressable market or opportunity as you go forward?

Lloyd Pitchford:

Yeah, the Ascend platform is unique in our industry and that it clearly started as an analytical platform. It's developing to an enterprise platform that really helps clients manage the entire life cycle of a consumer through the journey with the bank or the financial institution. And as we move from providing one installation to a client to two and three, the benefit actually starts to shift from the benefit of that individual product to the benefit of the integration between the products.

So in the past you might do an analytical sandbox to try and determine the optimal credit score to lend and optimize for credit risk, while you then might do something very different for fraud risk. If you can combine the two and optimize for false positives across both credit and fraud, you have something quite unique this year we'll launch a RegTech module.

If you think about the interaction with regulators, they're looking for end end-to-end regulatory information, not individual bits of a credit sandbox or a decisioning module. The ability to suck all of the data for a regulator required out into a regulatory oversight book that you can give to the CFPB or other regulators, again, that's a unique advantage of the integration between multiple products on an enterprise platform.

Very distinctly different than selling individual products. So this year we launched the integration module, we're rolling out the migrations with clients both through 1,800 provision solutions with clients on that platform. And obviously, the more clients see of the benefits of that integration, we start to accelerate the number of products that we sell for each client.

Ashish Sabadra:

That's great. So, there's seems like a significant opportunity here to continue to gain wallet share. But also as you think about your existing customers, which may be using your credit product but not using Ascend, is there a significant penetration opportunity on that print as well?

Lloyd Pitchford:

Yeah, very material. We're only really just getting started. And if you think for our clients the big benefit is automation, it's cost reduction. You can do things better, but you can do things better with lower cost. So you think about what I just mentioned, the cost involved of drawing information out of disparate systems to create a regulatory oversight, yeah, interaction or if you can automate that for the integration platform, big cost saving opportunity and lower risk. So it is those sorts of examples I think that show why the direction of travel is to an integrated enterprise platform, and also the Ascend platform is industry leader and way ahead of competitors.

Ashish Sabadra:

That's great. And then just one more on Clarity. You talked about really strong growth in Clarity services. What's driving that?

Lloyd Pitchford:

Yeah, a few things. Clearly the short-term lending market when supply in the traditional credit market is low as it has been, demand moves around to find credit where it can go. So there's clearly counter cyclical demand for our Clarity bureau. You also have strong demand for the attributes from that bureau across our traditional lenders who are building models, creating credit policies, etc. So we embedding that in a lot of our products. So that's really what's driving.

Ashish Sabadra:

That's great. Now switching gears, can we talk about the auto business? Obviously your auto business is a lot bigger than just the credit bureau for autos. So, can you just talk about how do you think about the opportunity on the auto front and how do you think about the trends there? One of the concerns, obviously, is higher rates could affect auto lending but, obviously, given how broad your portfolio is, how should we think about the growth potential?

Lloyd Pitchford:

Yeah, so over the last 15 years, this auto business has grown really well and it's diversified to be much more than associated with just a credit transaction. So less than half of that $300 million business is associated with credit today. So, we've rolled out the Ascend platform in helping dealers acquire new customers and use analytical techniques to understand who wants a Mercedes in their local population, etc.

So, as it's diversified and we've done more things, it becomes less focused on pure credit related demand. So we've grown well this year, 7% in Q1 and 5% Q2. In second half, you'd expect us to see probably that edge up a little bit. There was some interruption with one of the providers of software into the dealer network in first and second quarter, which reduced demand a little bit, but that came back quite strongly. So I think we expect a good second half for the auto business.

Ashish Sabadra:

That's great. And then on the consumer services side, you mentioned the optionality there, you have 190 million subscribers. How do you monetize those subscribers?

Lloyd Pitchford:

So, yeah, we build an audience because we're relevant to help them in their financial lives, and that's quite a heavy investment. You have to build that audience and show benefit. The minute you have, then you get the right to talk to them about value. And that's the stage you're at. It's why this is a really exciting time.

You see what we've done with auto insurance, we had a mostly credit and identity consumer platform. We earned the right to be able to then talk to them about their car. And through using Boost to allow somebody to boost their credit score to be able to find an insurance proposition in their bank account, that combined with our B2B assets means we know something unique, we know who you are, what car you drive, who your insurance provider is, how much you pay and when your renewal date is. That data asset is a unique data asset of who's shopping for car insurance now. That's very valuable to insurance carriers.

So, you can see that we've built up a unique product with three-click apply, binding of an insurance product on our platform in a very simple way. And that's been growing very quickly. The minute you have earned that right to talk to somebody about car insurance, you can clearly then bundle home insurance. You can also do buy car, sell car through click-out models with other digital providers.

So, the option value embedded in a consumer relationship, it really is enormous and you're going to see over the next five or 10 years how we build out and diversify the number of things that we can do for consumers using the unique B2B datasets we have, just like in car insurance. And we have unique datasets across the biggest spend areas for consumers, their home, their car, their digital expenditure, the things that they interact with with their healthcare system. There's a lot of value potential there for the future and you can see the effect of that scaling through the development of the margin and the consumer business, so has really been progressing quite nicely as with scale.

Ashish Sabadra:

That's great. So you talked about, obviously, insurance has been on a very accelerated trajectory. How do you think about which inning are we in in terms of rolling out that auto insurance shopping activity, or sorry, marketplace?

Lloyd Pitchford:

Yeah. To use innings, we're about to go into the first inning.

Ashish Sabadra:

Yeah.

Lloyd Pitchford:

It's very early. I think, you think about a year ago we signed our first partnership with one of the major carriers and we started to roll out to the very first stage, you have to roll this out state by state. A year later, we're live with three of the five top carriers. Two are fully integrated in a way that means we bind the insurance product as an agent for them. And, of course, what that gives them as a carrier is a very low cost-

Ashish Sabadra:

[inaudible 00:14:51]

Lloyd Pitchford:

... low funnel, low end of funnel, high intent consumers and it's really successful so far. And as you can see actually we can now go on from that and do some other unique things. So, we've rolled out in the insurance hub, continual benchmarking of an insurance product to other rates available in the market and the pitch is never shop for insurance again. You can constantly see and be able to onboard to another product, the benchmark rates in the market and, yeah, I think there's a long runway to go here.

Ashish Sabadra:

That's great. On the credit marketplace, that seems to be improving. Can you just talk about some of the puts and takes there, and as we get into a procyclical environment, does that get incremental tailwinds?

Lloyd Pitchford:

Yeah, the credit marketplace reacts quite quickly to supply principally simple. And I think we've had restricted supply for a little while. Within our credit marketplace, we're still negative. In the first two quarters of the year we went from double-digit negative to single-digit negative. The moving parts in there though are loan, personal loan growth, credit card decline. So credit cards are still soft. A number of our more focused competitors give that disclosure by individual product lines so you can kind of see that the lending environment is still subdued, but it moves very quickly. And I think back to my earlier comments, you need to see that confidence in the environment for everybody to then move on and increase supply for the market as a whole.

Ashish Sabadra:

That's very helpful color. And then just switching gears, but within North America itself, Employer Services and verification is a relatively new business, but you've ramped that up really quickly. As of last quarter you had 61 million records. Can you just talk about what's driving and, obviously, pretty good success with new logos as well, what's driving that strong strength here?

Lloyd Pitchford:

Yeah. It's, as you say, it's a newish business for us. We're a challenger and the job of a challenger, it's the great choice. So we're doing that on both the Verify side and on the Employer Services side. Some stats on progress, we've got in terms of the Verify side, we've got about half of the top 25 mortgage lenders are a customer of ours. 80% of all the customers on the Verify side, sorry, 85% of all the customers on the Verify side per this type of waterfall. And the fact that a waterfall has developed is a really important signal win for this in the market. Total clients we have, last year we added 400 across Employer, and Verify we added 300 in the first half, which is part of the record camp growth that you referenced.

So I think the direction of travel is clear. We have a lot of tools available to us as Experian to be able to continue to develop in this market. A lot of relationships at play on both sides. So I think we're going to be a really good challenger in this market. And there's clearly a developing ecosystem around employment data, whether it be verifying employment or income data and the cash flow analytics that you can do around it. So I think we've only just really seen the start of that develop as a long runway ahead for everybody for partaking in that market. And we're going to build a strong challenger position in there over the next few years.

Ashish Sabadra:

That's great. If I can ask a follow-up question on the record count itself, what's driving that record count? Are you able to sign up new payroll provider or is it coming through your Employer Services offering?

Lloyd Pitchford:

Yeah, so over the last year the principal source of growth has been through Employer Services businesses. So we were able to provide a big brand name to compete in that market to gain access to new employers and we're making good progress. There was less choice historically, there's now more competition, particularly for the larger employers and that's the principal source of growth.

If you think about payroll partnerships, our pitch always is that the best buying community if you have access to payroll data is a vibrant competitive market that's competing and innovating in lots of different ways to use the access to that record. So that's our pitch when partnerships become available, but the principal source that we're growing is the Employer Services just now.

Ashish Sabadra:

Okay, that's very helpful color. Switching gears, talking about LATAM, you have the leadership position in Brazil, been a phenomenal market. Lately, we've seen some softness there. Can you talk about some of the softness and how do we think about the re-acceleration in that business?

Lloyd Pitchford:

Yeah, so we did 9% in Q2, 5% in Q1.

Ashish Sabadra:

Surprising we talk about 9% being a bit soft.

Lloyd Pitchford:

Yeah, it is. I think that's right. I think we expected the move back up to a high single-digit. Within that, though, the consumer business was very strong. We built, just back to my comments earlier, just a fantastic direct-to-consumer business there in Brazil that spread out into things like payments. The B2B business was a little weaker in that. That's clear in all the macro commentary. If you look at some of the bank's commentary, some of the fiscal uncertainties, some of the changes in inflation rates and interest rates, clearly weigh on confidence in the sector. So we think that probably continues at about this level for the second half of the year.

We have a very strong breadth of our business there, probably the strongest of anywhere in the Experian portfolio, and it's an under-penetrated market for credit and for data. So that was why we bought into that business years ago, is why we built the consumer business. So we're very positive about the long-term trajectory of that business, but clearly the macros are a little bit soft just now.

Ashish Sabadra:

That's very helpful color. And particularly on the consumer side, what drove that material acceleration to 30% in the quarter? Are there new products that are getting rolled out, or what's really driving?

Lloyd Pitchford:

You can't really look at quarter to quarter and, I guess, and think of it as acceleration, we have some things that we do at different times of the year. So we have a business debt resolution business [inaudible 00:21:19] that has big fairs at certain times of the year. That wasn't a factor in Q2. They tend to be in our Q3 and Q4.

But there are various different campaigns that we run, different product launches, so it can be a little variable. But what's clear is its very strong growth, and that's been really consistent for quite a number of years. And we've got over 90 million relationships with consumers in Brazil, in a credit hungry environment where the cost of credit is quite high, we've got lots of tools to try and help improve their financial life. So yeah, there's a lot we can do.

Ashish Sabadra:

Absolutely. And then on the B2B side, can you talk about the pipeline there? There were a few new clients that we've signed. How are those ramping up and are there more opportunities for more plans?

Lloyd Pitchford:

Yeah, the nature of our business there we've got, by far, the best data in the market to help [inaudible 00:22:16] with clients. It's obviously a new positive data environment. If you want an analytical platform to deal with positive data, Ascend in the most complex market is the industry leader. So taking that to Brazil is a natural extension.

We've made quite a number of fraud acquisitions over the last two years in Brazil. One announced, not yet complete in the digital sphere. So we've got, again, quite a number of growth opportunities in Brazil outside of core credit. Agri we've been... It's a very underpenetrated sector, Brazil's biggest industry where we can bring all of our analytical techniques to create trusted relationships and trade credit. Lot of different opportunities there.

Ashish Sabadra:

That's great. That's very helpful. If there are any questions, please raise your hands and we can send a mic around. I'll jump into what's happening with UPI. Again, a softer macro environment, but how do you think about that business over the next few years?

Lloyd Pitchford:

Yeah, we have a strong position in the UK if you think of our overall share of the credit and bureau and related market. So I think the overall macro position is quite weak. [inaudible 00:23:32] we've seen that similar conditions to the US, but perhaps without some of the unique characteristics around pricing and mortgage. The consumer business recovered quite well in the first half. We saw the credit marketplace improve quite a bit, but I think we're going to have to wait and see how the UK business, the UK economy reacts to some of the things that we're seeing over the next few quarters. So modest growth, I think, is the outlook for the next, probably the next six or nine quarters.

Ashish Sabadra:

That's very helpful.

Lloyd Pitchford:

Six or nine numbers.

Ashish Sabadra:

Maybe just switching gears and talking about tech transformation... One second. Yeah.

Speaker 3:

First go back [inaudible 00:24:25] talk a little bit about how much [inaudible 00:24:31]

Lloyd Pitchford:

Sure, yeah, I think if you look at our revenue today, it's almost entirely in the US. So, the US, it was a business that was curated around mortgage and there's a regulatory requirement of the US to use actual income, whereas in the UK you used modeled income. So, what we've done is, obviously, form a challenging stance in the US to follow Equifax who've done a great job curating that market.

In the UK, we've moved to create a leading position in access to records. What we're now doing is curating the products on top of those records where there isn't a regulatory requirement. So, we're in trial with quite a number of the mortgage lenders in the UK around using actual verified income rather than modeled income and sharing the benefit of that. In Brazil, we recently bought a business that's very focused on employee-related loans. So there's a requirement in Brazil around employers offering, essentially, payday advances around that.

So way to think about it, strong challenger in North America, leading the early position in both the UK and Brazil.

Yeah, we do. So we've got access through partnerships to about 80% of the PAYE records in the UK. Yeah. Now, the approach to it under rules in the UK is very different. So if you don't have an instant hit database, you call on the record. So you have partnerships where you call on the record when somebody starts a consumer journal. So it's a little bit different, but the partnerships to give you access to that record is quite important.

Speaker 4:

Curious to hear your thoughts in terms of how you would describe your relationship with FICO going forward. I guess, there is a few areas where you partner or compete. On the one hand, I think they're a major source of the support provider and they continue to be surprising move forward in the last few years. On the other hand, I think you along with other credit bureaus only [inaudible 00:26:52] a competitive score system that is also going through a monetary dynamics in the US. Will be curious to hear your thought on that. And last, I think there's certain areas where you compete with your software business, so I'd curious just high level how you think about the financial relationship going forward, given some of that I described.

Lloyd Pitchford:

Yeah, so the ecosystems we plan mean many of our customers are also competitors and they're also suppliers and there's quite a complex web, and that's true for TELUS, Equifax and also for FICO. We're actually, I think, their single biggest customer. If you look at it through the partnership we have on the consumer side, we're probably their biggest single competitor. On the analytics side in the disposition of software, we clearly in partnership with the other bureaus have access to advantage score. So it's a complex web of relationships. We, obviously, use our various positions to optimize the long-term value that we have for us where we resell the FICO score. Clearly, we do that at the markup and we will continue to do that. So no real change, I think, to that. Clearly, regulations move around and we respond to them as they do.

Ashish Sabadra:

Just switching gears a bit, talking about the culture of innovation and technology transformation, you've been on this journey of cloud migration. Can you just provide an update on where you are and how do you think about that over the next...

Lloyd Pitchford:

Yeah, yeah, well progressed. So we said in our May results, by the end of next year, so 18 months time. We'll be 85 to 90% on the cloud in North America and Brazil. So ostensibly done and then we start to see the benefits of the flyer, the dual run costs and various other investments.

Then what matters, and I think all the bureaus on roughly same timeline, what matters is your culture of innovation and your access to data. And that's where we have two unique advantages. You look at the consumer business, that's the deepest long-term source of a relationship, a trusted relationship to provide data. And our culture, if you look at it, culture metrics, last door scores leading the industry.

Last week we had the pleasure to be announced as ranking 14th in the global Great Place to Work. So they had over 20,000 companies, and these are all leading indicators of culture health, which are really important when you think that ultimately technology is just been enabled and everybody has access to. So, as we come out of all this change on the cloud program, it's a great opportunity to have that culture and that data advantage really come and shine.

Ashish Sabadra:

That's great. Maybe one last question on margins, delivered 60 basis point of margin expansion and guided to the higher end of the range for the full year, what's driving that strong margin?

Lloyd Pitchford:

Yeah, depends which way you look at it, but if you look at it on a segmental basis, the scaling of the consumer business has really developed the margin over the last few years and that's all the benefit that I talked about earlier. With that, I think we're coming to the end of a period where we've had a few headwinds on costs, like cloud program, the dual running costs that we have embedded in the P&L. The soft lending environment will recover at some point, that's high margin business. The investment in the consumer business as it scales will return investment in the verification business, et cetera.

So, I think, as we outlined in May, that gives us a lot of confidence in the margin outlook over the medium term that we put out in our financial framework. And you can see we're growing well and we grew well through this last point of the cycle. Our big investments are reaching interesting points in their scaling dynamics, and you've seen us deploy quite a bit of capital in the M&A markets, and our valuations have got a little bit more realistic. So, as I said, it's I think a positive time for us to execute on that medium term framework.

Ashish Sabadra:

That's great. That's great, Lloyd. Thank you for giving us this opportunity.

Lloyd Pitchford:

Thank you.

Ashish Sabadra:

Thanks.