

Equifax

More than just Workforce: Commercial Credit a small, but robust growth driver

Maintain Rating: BUY | PO: 300.00 USD | Price: 268.19 USD

Commercial credit business providing a tailwind to USIS

We think EFX's quickly growing commercial credit business targeted to lenders serving small businesses is an underappreciated asset. The \$140mnE business (~8% of USIS and ~2.6% of total sales in 2023) is expected to grow at a double-digit rate in 2024, grew ~15% in 2023, and has grown at a 11%E CAGR since 2019. Another year of 15% growth in 2024 would add 120/40bpE to USIS/total sales. We expect growth from new product launches and a focus on cross/up-selling.

A business built through M&A

EFX's commercial credit business was built on the back of acquisitions going back as far as 5-7 years ago. This includes the 2019 PayNet (commercial leasing data) and 2020 Ansonia (business credit, collections, & account receivable data) acquisitions. EFX's company data includes small business commercial loan data, as well as leasing data (eg. truck, car, equipment leases, etc.).

Innovation driving EFX's growth in commercial credit

EFX's product innovation should fuel up/cross-selling opportunities in commercial credit. Last week, it released a Know Your Business (KYB) online Business Verification Solution. The product helps lenders to small businesses ensure its borrowers are legitimate, which is increasingly important as their business moves more online. In addition, in May 2023, EFX launched its OneScore for Commercial, which helps lenders to small businesses and startup score borrowers. The scores' are supported with commercial credit data (eg. financial trade data), commercial public records (eg. judgements/liens), commercial firm & linkage data (eg. firmographics), and owner consumer data (eg. ACRO credit data).

We don't view this as a threat to DNB's business

EFX indicated that its commercial credit business competes with Dun and Bradstreet (DNB) and another large player. However, DNB's commercial credit business largely serves lenders to large and mid-sized businesses, while EFX's products are geared towards the small business segment. Dun & Bradstreet also thinks its commercial credit business has an edge given the company's deep linkages and hierarchy data (via its Master Data Management database).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.56	6.70	7.87	11.00	13.35
GAAP EPS	5.64	4.40	6.37	9.54	11.97
EPS Change (YoY)	-1.0%	-11.4%	17.5%	39.8%	21.4%
Consensus EPS (Bloomberg)			7.66	9.84	11.77
DPS	1.56	1.56	1.68	1.80	1.94
Valuation (Dec)					
P/E	35.5x	40.0x	34.1x	24.4x	20.1x
GAAP P/E	47.6x	61.0x	42.1x	28.1x	22.4x
Dividend Yield	0.6%	0.6%	0.6%	0.7%	0.7%
EV / EBITDA*	22.7x	23.0x	19.6x	15.6x	13.7x
Free Cash Flow Yield*	0.4%	1.6%	2.9%	3.5%	5.0%

* For full definitions of *IQmethod*SM measures, see page 4.

13 March 2024

Equity

Heather Balsky
Research Analyst
BofAS
+1 646 855 1497
heather.balsky@bofa.com

Wahid Amin
Research Analyst
BofAS
wahid.amin@bofa.com

Stock Data

Price	268.19 USD
Price Objective	300.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-1-7
52-Week Range	159.95 USD - 275.10 USD
Mkt Val (mn) / Shares Out (mn)	33,121 USD / 123.5
Free Float	99.6%
Average Daily Value (mn)	224.12 USD
BofA Ticker / Exchange	EFX / NYS
Bloomberg / Reuters	EFX US / EFX.N
ROE (2024E)	20.4%
Net Dbt to Eqty (Dec-2023A)	117.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

EFX: Equifax
USIS: US Information Solutions
ACRO: Automated Credit Report On-line

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Timestamp: 13 March 2024 12:35AM EDT

iQprofileSM Equifax

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.3%	8.9%	11.0%	14.0%	16.0%
Return on Equity	24.7%	19.6%	20.4%	25.4%	26.6%
Operating Margin	20.6%	17.7%	22.8%	27.3%	29.9%
Free Cash Flow	133	516	954	1,154	1,649

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.3x	1.5x	1.2x	1.3x
Asset Replacement Ratio	1.1x	1.0x	0.7x	0.7x	0.8x
Tax Rate	24.7%	23.1%	26.6%	26.6%	26.6%
Net Debt-to-Equity Ratio	138.5%	117.2%	93.5%	72.4%	46.9%
Interest Cover	5.8x	3.9x	5.8x	9.6x	14.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,122	5,265	5,865	6,755	7,440
% Change	4.0%	2.8%	11.4%	15.2%	10.1%
Gross Profit	2,945	2,930	3,235	3,709	4,077
% Change	-2.7%	-0.5%	10.4%	14.7%	9.9%
EBITDA	1,722	1,694	1,988	2,498	2,847
% Change	3.1%	-1.6%	17.4%	25.7%	14.0%
Net Interest & Other Income	(126)	(216)	(246)	(208)	(172)
Net Income (Adjusted)	933	830	980	1,377	1,673
% Change	-1.2%	-11.0%	18.1%	40.4%	21.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	696	545	794	1,194	1,499
Depreciation & Amortization	569	620	676	681	656
Change in Working Capital	(626)	(43)	(126)	(311)	(91)
Deferred Taxation Charge	88	(70)	0	0	0
Other Adjustments, Net	30	65	85	97	106
Capital Expenditure	(625)	(601)	(474)	(507)	(521)
Free Cash Flow	133	516	954	1,154	1,649
% Change	-84.7%	288.8%	85.1%	20.9%	42.9%
Share / Issue Repurchase	17	32	36	(159)	(154)
Cost of Dividends Paid	(194)	(237)	(380)	(414)	(450)
Change in Debt	492	(78)	(519)	(250)	(1,125)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	285	217	308	639	559
Trade Receivables	858	917	1,006	1,214	1,337
Other Current Assets	228	231	258	368	408
Property, Plant & Equipment	1,587	1,834	1,698	1,571	1,464
Other Non-Current Assets	8,590	9,090	9,092	9,120	9,137
Total Assets	11,548	12,289	12,361	12,912	12,905
Short-Term Debt	967	963	0	0	0
Other Current Liabilities	1,048	1,065	1,112	1,193	1,289
Long-Term Debt	4,820	4,748	5,192	4,942	3,817
Other Non-Current Liabilities	739	826	835	837	857
Total Liabilities	7,575	7,602	7,139	6,972	5,964
Total Equity	3,973	4,688	5,222	5,940	6,941
Total Equity & Liabilities	11,548	12,289	12,361	12,912	12,905

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

Equifax provides credit and risk management solutions to businesses and consumers. The second largest US credit bureau (based on revenue), the company also operates in 23 other countries. Products and services include consumer reports, risk scoring and analytics, income and employment verification, fraud and identity solutions, decisioning services, and marketing services.

Investment Rationale

We expect the mortgage market recovery amid lower interest rates (and off of 2023's lows) to fuel meaningful 2024-25 revenue and EBITDA growth. We do not think this is priced into the company's valuation. Mortgages comprised 20%E of 2023 revenues, and a much higher mix of EBITDA. Our outlook assumes the consumer lending environment remains tough, pressuring the company's credit bureau business. An improvement in trends would be upside to our outlook.

Stock Data

Average Daily Volume 835,668

Quarterly Earnings Estimates

	2023	2024
Q1	1.43A	1.41E
Q2	1.71A	1.98E
Q3	1.76A	2.19E
Q4	1.81A	2.30E

Price objective basis & risk

Equifax (EFX)

Our \$300 price objective is based on 27x our 2025 adjusted EPS estimate. This is a premium to the company's 24x 5-year average, but below the 32-33x recent peak. We assume the multiple expands as EPS re-rates higher and more investors hone in on 2025's profitability potential.

Downside risks are 1) US mortgage market recovery weaker than expected amid higher for longer rates, 2) weakening US or international credit trends due to a worse than expected economic environment and tighter than expected consumer lending standards, 3) risks associated with Equifax's ongoing technology transformation (cost pressure, delayed timing of completion), and 4) market share losses at Workforce Solutions due to increased competition and reduced pricing power

Upside risks are 1) faster rate cuts leading to better mortgage performance, 2) faster than expected sales traction from its cloud migration, 3) a better than expected labor market benefitting Workforce Solution's sales growth, and 4) better than expected international momentum.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky



US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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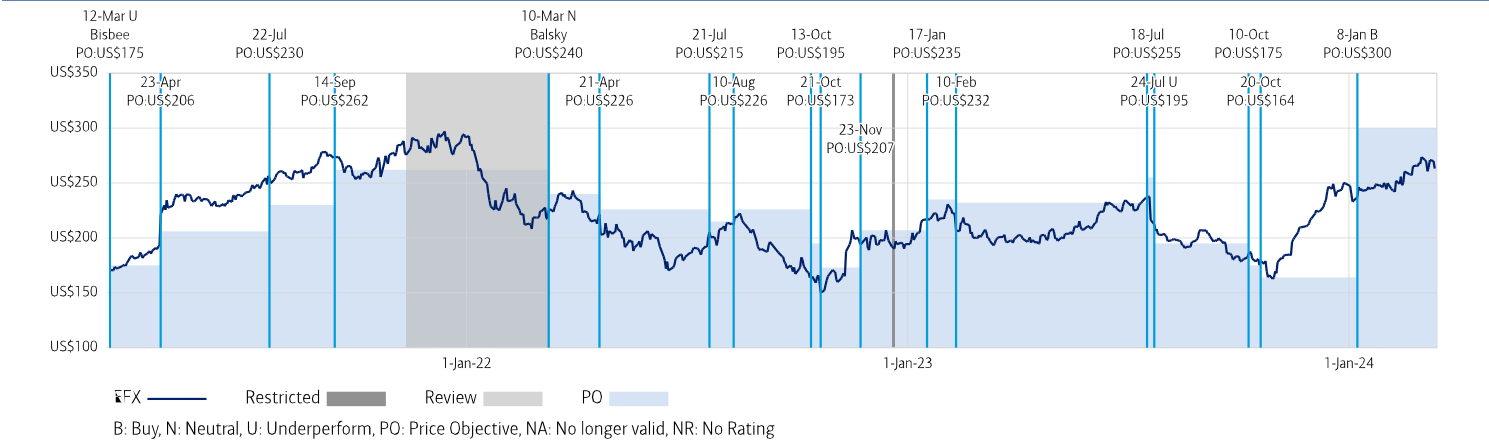
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Equifax (EFX) Price Chart



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Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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