

Equifax

4Q first look: Guidance below Street; we want to know: is it all conservative?

Maintain Rating: BUY | PO: 300.00 USD | Price: 241.86 USD

Oh boy, we do have a lot of questions

We (and investors) will need a lot of handholding with EFX's 2024 guidance, which is 9% below the Street at the mid-point. It's clear to us that they are guiding to no mortgage recovery and just annualizing recent trends through the year. And there's also likely some level of conservatism across other parts of the business. That would mean there's likely a fair amount of upside. But we wonder, is there anything that's not conservatism? And then, 1Q's outlook for a 4% EPS decline (at the midpoint) is surprising. The sales guide is ~2% below consensus, meaning the rest of the delta is probably margins, D&A, and/or interest expense. On the margin side, mix plays a factor (mortgages are higher-margin) and 1Q24 equity comp will be up y/y. But if margins are (possibly) <30% in 1Q, we need help on the call bridging to a 33.3% full year 2024 margin. We look for answers on the call at 8:30am ET tomorrow.

4Q beat on sales and margins

After the close, EFX posted \$1.81 4Q23 EPS, which was above our/consensus' \$1.66/1.73E. EFX beat our estimate on sales (+8% organic vs. +7%E) and EBITDA margins (33.7% vs. our 33.3%E).

Guidance is likely conservative; focus on 1Q margins

We're most focused on 2024 guidance, which we view as conservative (\$7.20-7.50 EPS on +7.6-9.5% organic sales and 33.3% EBITDA margin), especially since it doesn't bake in a mortgage market recovery. 1Q \$1.33-1.43 EPS guidance is ~30% below the Street. And we're backing into an 1Q24 EBITDA margin in the 28.5-29.5% range at the midpoint (vs. 29.2% in 1Q23 and our prior 31.3% view). Some investors are backing into (150)bp y/y. That said, we don't have details on interest, D&A, and taxes. We maintain our Buy rating; we think mortgage market improvement will drive stock price upside in 2024.

2024 mortgage recovery isn't in 2024 guidance

EFX's 2024 EPS guidance is below our/the Street's prior \$8.22/8.06 views. That said, we (and we think most of the sell-side) are modeling a mortgage market recovery, which is not factored into the 2024 outlook. For 2024, management is guiding to 16% inquiry decline (with (26)% in 1Q) and 24pt of mortgage outperformance. This outlook we infer assumes January inquiry trends persist through the year. Assuming inquiries are flat instead (or mortgages revenues are ~16% higher), we estimate that guidance would be 3%/110bp/+10% higher on sales/EBITDA/EPS (we get to \$8.08 EPS at the mid-point). We're not surprised by the implied caution in management's initial mortgage guide, the market is very tough to predict and the Fed only last week indicated a delay in their first rate cuts. But there are some promising signs, MBA weekly applications are running down 10% y/y year-to-date (up from a 14% decline in 4Q23).

07 February 2024

Equity

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Stock Data

Price	241.86 USD
Price Objective	300.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-1-7
52-Week Range	159.95 USD - 252.60 USD
Mrkt Val (mn) / Shares Out (mn)	29,966 USD / 123.9
Free Float	99.6%
Average Daily Value (mn)	174.10 USD
BofA Ticker / Exchange	EFX / NYS
Bloomberg / Reuters	EFX US / EFX.N
ROE (2023E)	19.4%
Net Dbt to Eqty (Dec-2022A)	138.5%
ESGMeter™	High

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Timestamp: 07 February 2024 10:42PM EST

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.

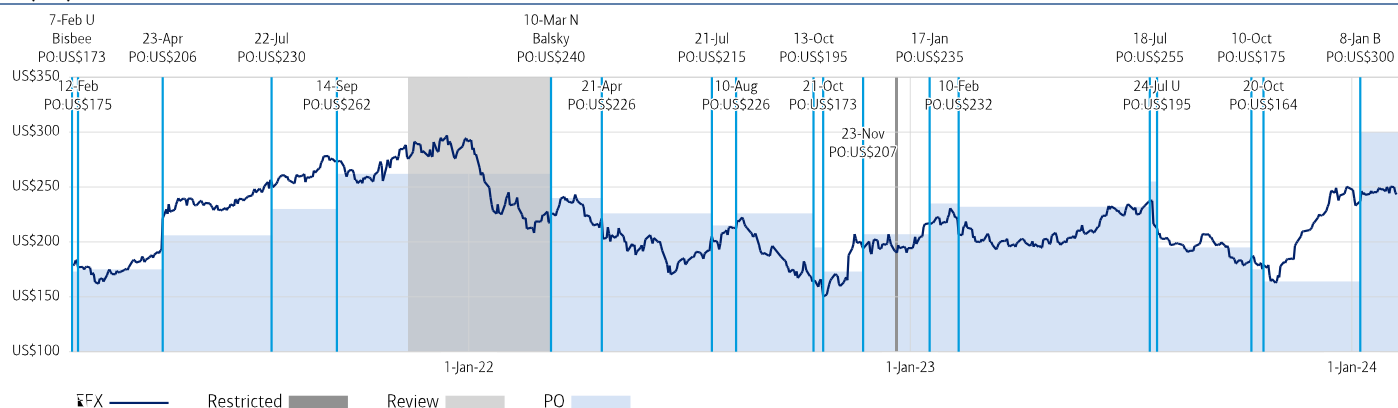
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Equifax (EFX) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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