

TransUnion

Management attempts to guide 2024 cautiously

Reiterate Rating: UNDERPERFORM | PO: 65.00 USD | Price: 73.50 USD

4Q was a good quarter; still wary about near term

TRU's 4Q sales/margin/EPS beat was arguably well broadcasted, although not reflected in consensus estimates. TRU had spoken positively about 4Q at a Nov. investor conference and at our mid-Dec. Credit Bureau IR Day (see our [event note](#)). We think post-print share price strength was driven by consumer lending stabilizing vs. 3Q, 2024 guidance that bridged the Street, and a 2024 outlook that mgmt qualified as more "conservative" than 2023's. Still, we remain cautious, as the consumer lending environment remains sluggish near term and visibility has been tough for TRU. We look for incremental signs of an inflection before becoming more positive. We reiterate our Underperform rating.

4Q EPS beats across the P&L; guidance bridges the Street

TRU's \$0.80 EPS beat consensus' \$0.71E on higher sales (organic +5.0% vs. our/Street's 2.2/2.5%) and EBITDA margin (34.2% vs. our/Street's 33.9/33.6%). TRU's initial 2024 guidance was \$3.57-3.74 EPS on \$3.96-\$4.02bn sales (+3-5% organic) and 35.3-35.8% EBITDA margins. Consensus was at \$3.68 EPS on \$3.96bn sales and 35.9% EBITDA margins. This assumes no rates cuts, so there's likely upside to the mortgage outlook (~7% of 2023), and we also see potential upside on Int'l sales given ongoing momentum. We raise our 2024/25 EPS to \$3.66/4.40 from \$3.55/4.30 and our PO to \$65 from \$56 on a higher multiple assumption (15x EPS vs. 13x prior) due to better-than-feared consumer lending trends.

Consumer lending stable but soft

TRU characterized the 4Q consumer lending and marketing environment as soft but consistent with 3Q trends. 4Q guidance had assumed deterioration. 2024 guidance assumes lending standards remain weak, but steady. Comparatively, we infer that EFX's (Equifax) guidance reflects some modest softening with the economy. Upside/downside to volumes could drive material out/underperformance given high incremental margins.

Unraveling the impact of rates cuts

Mgmt reiterated on the call that lower rates are not factored into 2024 guidance. The direct benefit of lower rates would be on mortgages (7% of 2023 revenue). On an indirect basis, management thinks that lower rates mean its customers could face less uncertainty, which could improve their lending appetite.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.62	3.37	3.66	4.40	4.84
GAAP EPS	1.30	(1.47)	1.17	2.68	3.29
EPS Change (YoY)	-1.9%	-6.9%	8.6%	20.2%	10.0%
Consensus EPS (Bloomberg)			3.62	4.31	5.05
DPS	0.40	0.44	0.49	0.44	0.51
Valuation (Dec)					
P/E	20.3x	21.8x	20.1x	16.7x	15.2x
GAAP P/E	56.5x	NM	62.8x	27.4x	22.3x
Dividend Yield	0.5%	0.6%	0.7%	0.6%	0.7%
EV / EBITDA*	14.4x	14.4x	13.6x	11.9x	10.8x
Free Cash Flow Yield*	0%	2.4%	2.4%	4.2%	5.6%

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

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	56.00	65.00
2024E Rev (m)	3,984.5	4,010.2
2025E Rev (m)	4,298.8	4,331.2
2026E Rev (m)	4,635.0	4,669.2
2024E EPS	3.55	3.66
2025E EPS	4.30	4.40
2026E EPS	4.74	4.84

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Stock Data

Price	73.50 USD
Price Objective	65.00 USD
Date Established	13-Feb-2024
Investment Opinion	B-3-7
52-Week Range	42.09 USD - 82.75 USD
Mrkt Val (mn) / Shares Out (mn)	14,303 USD / 194.6
Free Float	99.5%
Average Daily Value (mn)	116.63 USD
BofA Ticker / Exchange	TRU / NYS
Bloomberg / Reuters	TRU US / TRU.N
ROE (2024E)	17.6%
Net Dbt to Eqty (Dec-2023A)	118.4%
ESGMeter TM	High

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Timestamp: 13 February 2024 08:03PM EST

iQprofileSM TransUnion

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.7%	3.4%	7.1%	9.6%	10.8%
Return on Equity	17.3%	16.0%	17.6%	18.9%	18.1%
Operating Margin	17.0%	1.2%	13.7%	21.3%	24.0%
Free Cash Flow	3	339	343	602	801

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.4x	1.0x	1.0x	1.1x	1.1x
Asset Replacement Ratio	0.6x	0.6x	0.7x	0.7x	0.5x
Tax Rate	31.0%	NM	23.9%	23.0%	23.0%
Net Debt-to-Equity Ratio	119.1%	118.4%	109.2%	78.9%	59.3%
Interest Cover	2.7x	0.2x	2.1x	3.9x	4.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,710	3,831	4,010	4,331	4,669
% Change	19.6%	3.3%	4.7%	8.0%	7.8%
Gross Profit	2,382	2,378	2,468	2,655	2,851
% Change	15.6%	-0.2%	3.8%	7.6%	7.4%
EBITDA	1,346	1,344	1,418	1,622	1,797
% Change	9.6%	-0.2%	5.5%	14.4%	10.8%
Net Interest & Other Income	(243)	(274)	(227)	(213)	(248)
Net Income (Adjusted)	700	655	717	869	967
% Change	-1.8%	-6.4%	9.4%	21.3%	11.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	267	(271)	244	545	671
Depreciation & Amortization	519	524	530	529	530
Change in Working Capital	(511)	(70)	(60)	(96)	(92)
Deferred Taxation Charge	(89)	(163)	(150)	(162)	(175)
Other Adjustments, Net	115	629	140	133	147
Capital Expenditure	(298)	(311)	(361)	(346)	(280)
Free Cash Flow	3	339	343	602	801
% Change	-99.5%	NM	1.3%	75.5%	33.1%
Share / Issue Repurchase	19	23	0	23	0
Cost of Dividends Paid	(78)	(82)	(95)	(82)	(95)
Change in Debt	(715)	(342)	(297)	(342)	(297)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	585	480	430	406	476
Trade Receivables	602	722	755	839	930
Other Current Assets	263	276	294	330	368
Property, Plant & Equipment	218	199	306	395	434
Other Non-Current Assets	9,998	9,431	9,155	9,431	9,155
Total Assets	11,666	11,107	10,941	11,401	11,364
Short-Term Debt	115	90	0	0	0
Other Current Liabilities	791	915	907	931	968
Long-Term Debt	5,556	5,251	5,054	4,517	3,889
Other Non-Current Liabilities	936	746	746	746	746
Total Liabilities	7,397	7,002	6,707	6,194	5,604
Total Equity	4,269	4,106	4,234	5,207	5,760
Total Equity & Liabilities	11,666	11,107	10,941	11,401	11,364

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

Company Sector

Business Services

Company Description

TransUnion provides credit and risk management solutions to businesses and consumers. The company is the third largest global credit bureau, serving over 65,000 clients in over 30 countries. Products and services include consumer credit reports, risk scores, analytical services to manage risk, and decisioning capabilities to deliver insight across the consumer credit lifecycle.

Investment Rationale

We worry the slowdown in consumer lending will persist into 2024, weighing on sales and margins. We view macro headwinds and relatively high leverage as overhangs on sentiment.

Stock Data

Average Daily Volume

1,586,741

Quarterly Earnings Estimates

	2023	2024
Q1	0.80A	0.81E
Q2	0.86A	0.89E
Q3	0.91A	0.97E
Q4	0.80A	0.98E

Price objective basis & risk

TransUnion (TRU)

Our \$65 price objective is based on 15x our 2025E EPS (adjusting out stock comp, our multiple is 17x). We're assuming valuation is above but near late 2022 levels (13-14x FY2 P/E) as sales and margins remain weak amid a challenging consumer lending environment.

Downside risks are 1) a worse-than-expected consumer lending environment, 2) greater-than-expected mortgage market headwinds, 3) worse than expected deleveraging on higher sales, and 4) greater regulations (and potential) fines.

Upside risks are 1) a stronger-than-expected consumer environment, 2) greater-than-expected expense cuts, and 3) faster mortgage market recovery.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

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BUY				
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	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	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
	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				
	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
	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

EV / EBITDA

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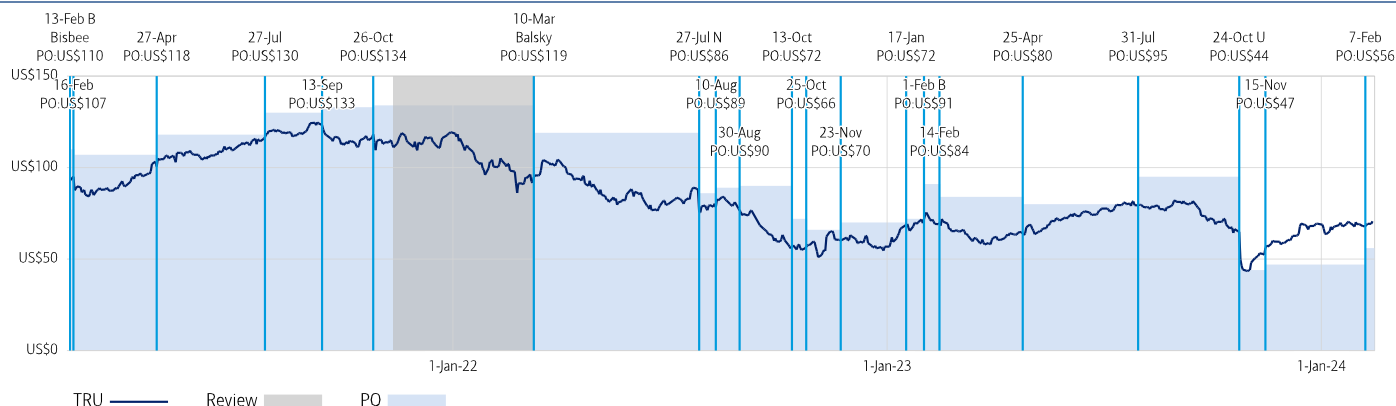
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Important Disclosures

TransUnion (TRU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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