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**Equifax, Inc. (EFX) Q1 2023 Earnings Call Transcript**

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EPS of $1.43 beats by $0.06 | Revenue of $1.30B (-4.49% Y/Y) beats by $19.03M

Equifax, Inc. (NYSE:[EFX](https://seekingalpha.com/symbol/EFX?hasComeFromMpArticle=false&source=content_type%253Areact%257Csection%253Amain_content%257Cbutton%253Abody_link)) Q1 2023 Earnings Conference Call April 20, 2023

8:30 AM ET

**Company Participants**

Trevor Burns - SVP, Head IR

Mark Begor - CEO

John Gamble - CFO

**Conference Call Participants**

Manav Patnaik - Barclays

Kyle Peterson - Needham & Company

Andrew Steinerman - JP Morgan

Andrew Jeffrey - Truist Securities

Shlomo Rosenbaum - Stifel

Andrew Nicholas - William Blair

Craig Huber - Huber Research

Kelsey Zhu - Autonomous Research

Jeff Meuler - Baird

Heather Balsky - Bank of America

Toni Kaplan - Morgan Stanley

David Togut - Evercore ISI

Seth Weber - Wells Fargo

George Tong - Goldman Sachs

Faiza Alwy - Deutsche Bank

**Operator**

Hello, and welcome to the Equifax Q1 2023 Earnings Conference Call and Webcast. [Operator Instructions]. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Trevor Burns, Senior Vice President, Head of Corporate Investor Relations. Please go ahead, Trevor.

**Trevor Burns**

Thanks and good morning. Welcome to today's conference call. I'm Trevor Burns. With me today are Mark Begor, Chief Executive Officer; and John Gamble, Chief Financial Officer.

Today's call is being recorded. An archive of the recording will be available later today in the IR Calendar section of the News & Events tab at our IR website, www.investor.equifax.com.

During the call today, we'll be making reference to certain materials that can also be found in the Presentation section of the News & Events tab at our IR website. These materials are labeled 1Q 2023 earnings conference call.

Also, we will be making certain forward-looking statements, including second quarter and full-year 2023 guidance. We hope you understand Equifax and its business environment.

These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from our expectations. Certain Risk Factors may impact our business are set forth in filings with the SEC, including our 2022 Form 10-K.

We'll also be referring certain non-GAAP financial measures, including adjusted EPS and adjusted EBITDA, which will be adjusted for certain items that affect the comparability of our underlying operational performance. These non-GAAP measures are detailed in reconciliation tables, which are included with our earnings release and can be found in our IR website.

Now I'd like to turn it over to Mark.

**Mark Begor**

Thanks, Trevor, and good morning.

Equifax delivered another strong quarter with 10% constant currency non-mortgage revenue growth as we executed well against our Equifax 2025 strategic priorities and the $200 million spending plan we announced in February.

Before I cover our strong results for the quarter, I want to provide a brief overview of what we're seeing in the U.S. economy and U.S. consumer. We continue to navigate a higher interest rate environment that has severely impacted the U.S. mortgage market. Mortgage originations were down 56% in 2022, and we expect them to be down about 32% this year. In the second half, we expect mortgage inquiries to be approaching an unprecedented 40% below 2015 to 2019 levels. The combined market impact in 2022 and 2023 is expected to reduce Equifax revenue by over $900 million, but the breadth and depth of the Equifax business model and fast growing non-mortgage businesses allowed Equifax to deliver 20% non-mortgage constant dollar growth last year, and 4% total growth last year, and an expectation to deliver 8% non-mortgage and 4% total growth in 2023 at the mid-point of our guidance, more than offsetting the large negative impact from the unprecedented mortgage market decline.

Broadly, consumers are still strong with unemployment at historically low levels and with modest increases in delinquencies. We're seeing some credit card and personal loan delinquency increases in subprime and more broadly DQs are now back to pre-pandemic levels, although they remain significantly below the levels we saw in 2009 and 2010.

Auto loan delinquency rates for subprime consumers are above pre-pandemic levels as well as above the levels we saw in 2009 and 2010. And as you know, delinquencies generally are manageable when people are working. While we have seen limited pockets of DQ increases, we continue to watch this important metric as we move through the rest of the year. Historically, as DQs increase, our customers will begin to reduce marketing and tighten originations.

Gross hiring year-to-date through February was down about 6% slightly better than the trends we saw in the fourth quarter, and inflation remains at elevated levels, but has begun to moderate slightly given Fed actions but with inflation still well above Fed targets, we expect further rate increases.

And we believe there has been some credit tightening at some customers with more impact in FinTech from both expectations of a slowing economy in the second half and capital issues impacting certain banks. And as you recall, our guidance assumed a slowdown in the second half.

While we are operating in an uncertain and challenging economic environment, Equifax continues to deliver. The breadth and depth of Equifax's broad-based business model is allowing us to weather this, the unprecedented mortgage market decline and deliver revenue growth and margin expansion.

Turning to Slide 4. Equifax had another strong quarter with non-mortgage constant dollar revenue growth up 10%. First quarter reported revenue of $1.302 billion was down 4.5% and down 4.3% on an organic constant currency basis and above our expectations against an unprecedented 58% mortgage market decline in the quarter.

Revenue was above the high-end of our February guidance from broad-based strength and execution across Equifax and continued strong new product rollouts.

First quarter adjusted EBITDA totaled $380 million with adjusted EBITDA margins of 29.2% both in line with our expectations. Adjusting for the incremental stock-based compensation expense incurred in the quarter adjusted EBITDA margins would've been approximately 31%, which is the baseline of which we expect to grow to 36% in the fourth quarter from revenue growth and our $120 million cost savings plan.

As a reminder, the bulk of the spending reduction benefit the second half and we have $50 million of carryover benefit in 2024 from our actions this year.

Adjusted EPS of $1.43 per share was above our February guidance range of $1.30 or $1.40 per share from stronger than expected revenue growth.

Our Equifax non-mortgage businesses, which represented about 80% of total revenue in the quarter, were strong with 10% constant currency and 8% organic constant currency revenue growth, with the 10% growth solidly inside our 8% to 12% long-term growth framework. All BUs delivered stronger than expected non-mortgage growth, which is positive momentum for the rest of the year.

Estimated U.S. mortgage market originations, which MBA forecasted to be down about 58% in the quarter were slightly weaker than the down 55% in our February framework. Total U.S. mortgage revenue was down about 33% or 25 points better than the market with both total revenue and our mortgage outperformance stronger than we outlined in February. The stronger outperformance was driven by better U.S. credit inquiries from higher than expected consumer shopping and positive mix in workforce solutions driven by significant growth from our new mortgage 36 trended product.

We continue to make significant progress driving completion of the Equifax data and technology transformation. At the end of the quarter, over 70% of Equifax is being delivered from the new Equifax Cloud, which will expand to 80% by year-end as we substantially complete the North America customer migrations to the Equifax Cloud. Our new Equifax Cloud infrastructure is delivering always on capabilities and faster new product innovation with integrated datasets, faster data delivery, better data quality, and industry-leading enterprise level security. We continue to be convinced that our Equifax Cloud and Single Data Fabric will provide a competitive advantage to Equifax for years to come.

New product innovation leveraging the capabilities delivered by the Equifax Cloud is also executing at a very high-level. Our new product Vitality Index of 13% in the quarter is at record levels and 300 basis points above our 10% long-term vitality goal.

And as you recall, in February, we reached the definitive agreement to acquire Boa Vista Serviços, the second largest credit bureau in Brazil. When completed, the BVS acquisition will add $160 million of run rate revenue in the fast growing Brazilian market. The transaction is subject to Boa Vista shareholder approval and other customary closings conditions, and we expect the transaction to close in the third quarter.

As we outlined in February, we're executing a broad operational restructuring across Equifax, reflecting both the acceleration of our cloud transformation benefits and a broader focus on operational improvements aided by our new cloud capabilities. The plan will reduce our total workforce of over 23,500 employees and contractors by over 10% during 2023, as well as delivering cost reductions from the closure of major North American data centers and other broader spending controls.

Total spending reductions from these 2023 actions are expected to be about $200 million with about $120 million reduction in expense or about $0.75 per share and $80 million reduction in capital spending. And we're tracking well to the plans we laid out in February, and we remain committed to meeting these cost improvement targets.

In 2024, the run rate benefit of these actions will reduce spending by an incremental $50 million to over $250 million.

And we're maintaining our 2023 full-year revenue guidance of $5.275 billion to $5.375 billion, and adjusted EPS guidance of $7.05 per share to $7.35 per share. Our guidance continues to assume a weakening U.S. and global economy in the second half. Given the slightly weaker U.S. mortgage market that we saw principally in March, we are now assuming U.S. mortgage market inquiries for 2023 to be down about 32% or 200 basis points weaker than we discussed in February.

Given our strong and broad-based performance in the first quarter, our ability to continue to outperform underlying markets and execution on our plan 2023 spending reductions, we are reaffirming our 2023 guidance in a continued challenging mortgage market and expected slowing economy in the second half.

We also continue to expect to deliver adjusted EBITDA margins of over 36% in the fourth quarter, which is a very important stepping off point for 2024. John will provide more detail on the overall mortgage market and our second quarter and full-year guidance shortly.

Turning to Slide 5. In the first quarter, we continued our strong non-mortgage revenue performance delivering 10% constant dollar and 8% organic constant currency revenue growth. All three business units delivered strong non-mortgage revenue growth in the quarter with workforce up 11%, international up 10% in constant currency, and USIS up 8%. This broad-based non-mortgage growth across the business units will be increasingly supported by completion of the Equifax Cloud and continued NPI growth across the businesses.

First quarter constant dollar non-mortgage growth of 10% was well within our 8% to 12% long-term revenue framework despite some slowdown in U.S. hiring activity that impacted EWS' Talent Solutions and I-9 businesses, as well as the comparison off a very strong 25% non-mortgage constant dollar revenue growth in first quarter last year.

Turning to Slide 6. Workforce Solutions delivered another very strong quarter with non-mortgage revenue growth up 11% and total revenue down 8% as expected from the 58% mortgage market decline. EWS had another strong quarter of record additions with an incremental 4 million records added to the TWN database ending the quarter with 156 million current records, up 15% and 117 million unique records, which was up 12%. This is a very positive sign, has historically the first quarter has lower net record growth as large retail and logistics companies reduce elevated holiday season staffing in the first quarter.

And as a reminder, unique records represent individuals on the TWN database and current records represent current active jobs in the database. And in our case, we have almost 50 million individuals having more than one job in our dataset. 117 million unique individuals on TWN deliver high hit rates, including self-employed or 1099 employees and defined benefit pensioners we now cover just over 50% of the 220 million people in the U.S. with employment and income records that are relevant to TWN database and our customers.

As I referenced last quarter, we're also beginning to onboard pension records with records from one major pension administrator and discussions with many more. And through our cloud tech transformation, we're executing -- expanding our capabilities to ingest unique 1099 based self-employment records.

And as a reminder, about 50% of our records are contributed directly by individual employers from our employer services business relationships. The remaining are contributed through partnerships principally with payroll companies. And during the quarter, we signed agreements with three new payroll processors that will deliver records during the balance of 2023.

And the TWN U.S. database now has 618 million total current and historical records from over 2.7 million employers. Increasingly, more of our new products are incorporated current and historical records with about 50% of first quarter verification services revenue coming from products that include historical or trended records.

Mortgage revenue was down 38% in the quarter, which was in line with our February guidance, but outperformed the overall mortgage market by 20 points when compared to the 58% decline in originations. These are very strong results when compared to EWS' 52% outperformance in the first quarter last year.

In addition to strong record growth and the positive impact from price actions in the quarter, we also saw strong NPI performance driven by the adoption of our new mortgage 36 solution, which is a 36-month trended product. During the quarter, over 50% of TWN mortgage inquiries were for products including trended or historical information and all at higher price points.

Turning to Slide 7. Workforce delivered revenue of $596 million, down 8% and in line with our expectations. Verification Services revenue of $456 million was down 11%, driven by the decline in mortgage revenue that I just referenced. Verification Services non-mortgage revenue, which now represents about two-thirds of Verifier revenue delivered strong 16% growth in the quarter. We saw continued very strong growth in the government vertical, which is about 45% of Verifier non-mortgage revenue, with revenue up 33% driven by strong growth with CMS at the state level, new products, and record additions. We expect this strong growth in our government vertical to continue throughout the year.

Talent Solutions delivered strong 10% growth in the quarter despite the 6% decline in the overall hiring market. Talent Solutions volumes have remained consistent since the middle of the fourth quarter despite the declining hiring market. We outgrew the market decline by over 15 percentage points delivering 10% growth a very strong performance driven by continued penetration of our digital solutions and background screening, strong new product growth, continued expansion of TWN records and favorable pricing.

In the quarter, we launched new products targeted to staffing and hourly segments, designed to meet specific needs of background screeners and end market employers in these very high volume market segments. We're also seeing continued penetration of our new educational background solutions. We expect these new products to continue to drive talent growth throughout 2023.

Consumer lending was down 1% in the quarter due to lower auto volumes with financial institutions and P loan declines with FinTech lenders.

Employer Services revenue of $141 million was up 4% from growth in our I-9 and onboarding businesses despite the negative impact in U.S. hiring offset by a 9% decline in UC or unemployment claims driven by lower jobless claims. Despite the slowdown in hiring, we've not seen an increase in UC transactions yet. And as a reminder, first quarter Employer Services revenues are seasonally higher than other quarters due to higher Affordable Care Act and W2 volumes.

Last month, Workforce Solutions launched the PeopleHQ portal, a new cloud native solution that brings together multiple best-in-class employer compliance services in a single unified online experience. PeopleHQ serves employers of all sizes and supports the total employee journey with enhance and connected people first experience leveraging the full suite of EWS Employer Solutions, powered by the Equifax Cloud and leveraging industry-leading security measures the PeopleHQ portal will have several EWS services including the work number verification service I-9 HQ, including I-9 Anywhere and I-9 Inspect and ACA HQ with best-in-class Affordable Care Act capabilities that help employers meet the needs of their employees while also reducing risk for penalties.

PeopleHQ is another example of how EWS is leveraging our new cloud native capabilities to deliver new solutions to the market that will drive employer revenue and continued direct record growth.

Workforce Solutions adjusted EBITDA margins of 50.4% were up 370 basis points from the fourth quarter and in line with our February guidance and as expected above 50% due to first quarter record growth, new product introductions and pricing actions, more than offsetting the macro effect of lower volumes in mortgage and Talent Solutions, as well as the negative mix from seasonally higher Employer Services revenues.

The strength of EWS and uniqueness and value of their TWN income and employment data in Employer Services businesses were clear again in the quarter. Rudy and the EWS team delivered another strong quarter outperforming the mortgage and hiring markets and continued strong record growth that will drive revenue and margins in the future.

Turning to Slide 8. USIS revenue of $422 million was down about 2.5% and much better than our expectations due to stronger mortgage and non-mortgage performance. USIS mortgage revenue was down 25% and was better than our expectations. Although estimated mortgage originations were 300 basis points weaker than our expectation at down an estimated 58%, USIS credit inquiries were stronger than we expected at down 44%. Credit inquiry performance continues to outperform originations, reflecting higher relative levels of consumer mortgage shopping behavior in this higher interest rate environment. Revenue outperformance relative to credit inquiries was strong at 19%, driven principally by pricing actions and was also strong versus a net estimated originations at 33%. At $105 million, our mortgage revenue was about 25% of total USIS revenue in the quarter.

Total non-mortgage revenue of $317 million was up 8% in the quarter with organic growth of about 4%. The 8% growth was stronger than the mid-single-digit growth that we expected in our February guidance.

B2B non-mortgage revenue of $261 million, which represented over 60% of total USIS revenue was up 8% with organic revenue growth of about 3%. B2B non-mortgage online revenue growth was up 9% total and up over 3% organically. And during the quarter, online revenue had very strong double-digit growth in commercial, auto, identity and fraud, and insurance.

And banking was up slightly in the quarter with growth at large financial institutions, although at slower pace than in the fourth quarter more than offset by declines in -- with smaller financial institutions and FinTechs.

Commercial was up over 20% with continued strong growth from our differentiated commercial credit data, including financial, telco, utility, and industry trade lines and our new OneScore for commercial that we launched in the first quarter. Commercial is an increasing area of strength delivering above market growth in the risk segment and we should see continued strong performance as we complete their data and cloud transformation later this year.

Financial Marketing Services our B2B offline business returned to growth with revenue of $48 million was up 4%, and in line with our expectations. Revenue growth in offline fraud insights and IXI wealth products was partially offset by lower pre-screen marketing revenue. Pre-screen revenue from larger customers slowed growth in the quarter, but we saw a significant weakness from smaller FIs and FinTechs. And we have not seen an increase in risk-based portfolio reviews yet.

USIS Consumer Solutions business had revenue of $56 million in first quarter, up 8% from very good performances in our consumer direct and indirect channels. USIS is winning in the marketplace with strong momentum from new solutions and differentiated data in key verticals of identity and fraud, commercial and auto. We're also in active dialogues with U.S. customers about the competitive benefits of the Equifax Cloud with always on stability, faster data transmission, and Equifax Cloud enabled new solutions.

USIS is on offense as they finalize their cloud transformation and are pivoting to selling cloud enabled -- new cloud enabled solutions. USIS adjusted EBITDA margins were 32.6% in the quarter and in line with our expectations. EBITDA margins were down sequentially due to negative mix from seasonally sequential growth in mortgage solutions, which drives higher royalties and data costs, as well as the normalization of annual employee incentive costs.

USIS is also incurring incremental costs from customer migrations to the new Equifax cloud that are accelerating as we move through 2023. We expect USIS adjusted EBITDA margins to be about 34% in the second quarter up sequentially reflecting revenue growth and the accelerating benefit of our 2023 spending reduction plan.

Last month we announced Todd Horvath joined Equifax as our USIS President. Todd has a proven track record of leading enterprise teams and financial services to drive growth and strong commercial relationship. And he brings more than 20 years of financial services management experience, a commitment to driving product and operational excellence and strong expertise in enterprise and cloud technologies to his role as the USIS President. I'm energized to welcome Todd to the Equifax leadership team and believe that his experience in transformation, innovation, and customer experience will proven valuable to taking USIS to the next year.

Turning to Slide 9. International revenue was $284 million in the quarter, up 9% in constant currency and 8% organically and much better than our expectations from new products and pricing actions. We're seeing a broad-based execution from Lisa and our international team. Europe local currency revenue was down 4%, but stronger than expected. The decline was due to the expected 20% decline in our debt management business in the UK. As we discussed last year, our UK debt management business was very strong in the first half of 2022, as the UK government made large catch-up debt placements following their COVID debt collection moratoriums. As a result, we expect to see declines in that business in the first half of 2022. However, we do expect to see consistent sequential growth in our debt management business as we move through 2023. In the quarter, we secured an expanded budget allocation from the UK government, which will deliver higher volumes of debt placements during the year, and we expect debt management to return to revenue growth later this year.

Our UK and Spain CRA business revenue was up 7% in the quarter, a very good performance and stronger than we expected. This strong performance was principally due to strong growth from consumer decisioning and analytical solutions.

Asia-Pacific delivered very strong local currency revenue growth of 11% in which Australia delivered high-single-digit growth in the quarter. We also saw a very strong growth in our India business up over 40%.

Latin America local currency revenue was up a very strong 32% driven by very strong double-digit growth in Argentina, Uruguay, Paraguay, and Central America from new product introductions and pricing actions. This is the eighth consecutive quarter of strong double-digit growth for the Latin American team, which we expect to continue in 2023.

Canada local currency revenue was up 8% and above our expectations. Growth in consumer and identity and fraud was offset partially by lower mortgage volumes in Canada. And international adjusted EBITDA margins at 23.5% were better than our expectations due to the stronger revenue growth and good execution against their 2023 cost reduction plans.

Turning to Slide 10. New product introductions leveraging our differentiated data in the new Equifax Cloud are central to our EFX 2025 growth strategy. Building off the momentum from 2022 where we launched over 100 new products and delivered a record Vitality Index of over 13%. In the first quarter, we launched over 30 new products and delivered 13% Vitality again. Our first quarter Vitality Index was again led by very strong performance in Workforce Solutions and in Latin America. And in the quarter, over 80% of new product revenue came from non-mortgage products leveraging the new Equifax Cloud.

Leveraging our new Equifax Cloud capabilities to drive new product rollouts, we expect to deliver Vitality Index in 2023 at about 13%, which is well above our 10% long-term Vitality Index goal. This equates to over $700 million of revenue from new products introduced in the past three years during 2023. New products leveraging our differentiated data, our new Equifax Cloud capabilities and Single Data Fabric are central to our long-term growth framework and are driving Equifax top-line growth and margins.

On the right side of the slide, we've highlighted several new products introduced in the quarter. Leveraging our differentiated data, USIS launched OneScore, a new consumer credit scoring model that combines traditional Equifax credit history with telecommunications, payTV, and utility payment data on over 191 million consumers, as well as Equifax DataX and Teletrack specialty finance data on about 80 million consumers, including payment history from non-traditional banks and lenders, which will potentially increase credit scores by up to 25 points in the scorable population by more than 20%. These new solutions are testament to the power of the Equifax Cloud in driving innovation that can increase the visibility of consumers to help expand access to credit and create new mainstream financial opportunities for them.

Now, I'd like to turn over to John to provide more detail on our second quarter guidance. We're up to a strong start in 2023, building off the momentum from a strong 2022 non-mortgage growth from new products, record growth and pricing. John?

**John Gamble**

Thanks, Mark.

Before I discuss 2023, I'll share a little more detail on first quarter 2023. First quarter corporate expense at $146 million was above our expectations, principally due to higher variable compensation with our strong first quarter results and cost related to executing the broader restructuring related to the $200 million spending reduction program.

Items below operating income came in as we expected with interest expense of $58 million, depreciation and amortization, excluding acquisition-related amortization of $89 million, and a tax rate of about 26.1%.

Capital spending in the quarter was about $154 million and in line with our expectations. We expect capital spending in the second quarter to remain at level similar to 1Q 2023 and then sequentially decline in the third and fourth quarters as we complete significant U.S. and Canadian customer migrations to data fabric. Total capital spending in 2023 is expected to be $545 million. CapEx as a percent of revenue will continue to decline in 2024 and thereafter, as we progress toward reaching 7% of revenue or below.

As Mark mentioned, first quarter mortgage market originations were estimated by MBA at down almost 58%, which is about 300 basis points weaker than the down 55% for the first quarter that we discussed in February. As shown on Slide 11, however, first quarter credit inquiries were down 44% better than our February expectations. The 30-year fixed mortgage rate did decline from a high of 6.5% in the quarter to about 6.3% today. It appears the somewhat lower rates attracted people to begin the home buying process, but continued tight inventory and high home prices, limited closings and originations.

As we look for the rest of 2023, our planning does not assume a fundamental improvement in the mortgage or housing markets. We're applying normal seasonal patterns to the current run rate of credit and TWN inquiries that we are seeing in late March and early April. On that basis for 2023, we are expecting mortgage market originations to decline about 32% versus 2022 or about a 200 basis point greater decline than we discussed in February. As we have discussed in the past, TWN inquiries are closely linked to originations. USIS credit inquiries despite the weaker overall originations market should still be down about 30% versus 2022 due to the better than expected credit inquiries in the first quarter and the expectation of continued greater than normal mortgage shopping that does not move to an origination.

Looking at the second quarter, again applying seasonal patterns to the run rates we're seeing in late March and early April, mortgage market originations are assumed to be down about 38% and credit inquiries down about 33%.

As we discussed in February sequentially as we move through the second half of 2023, a more normal pattern of mortgage activity would have mortgage originations in 3Q 2023 being about flat with 2Q 2023, and then declining in 4Q 2023 versus 3Q 2023. We expect that with these sequential patterns and the weaker overall originations in 2023 than we discussed in February, U.S. mortgage originations would be down slightly in the second half versus the first half and 4Q 2023 would be about flat year-to-year.

Turning to Slide 12. As Mark referenced earlier, in the first quarter, we outperformed on revenue delivery and delivered well against our 2023 spending reduction plan that will deliver $200 million in spending reduction in 2023 versus 2022 levels, including workforce reduction, closure of data centers, and additional cost control measures.

In the first quarter, adjusted EBITDA margins were slightly stronger than expected at 29.2%, adjusted for the negative timing of the impact higher stock-based compensation in the quarter versus fourth quarter, adjusted EBITDA margins would've been about 31%.

For 2Q, we expect adjusted EBITDA margins of approaching 32.5% at the mid-point of our guidance range. This sequential margin expansion is driven by both revenue growth as well as acceleration of the savings in the second half of 2023 related to our $200 million spending reduction plan.

As revenue growth sequentially in the second half of 2023 and cloud and broader cost reductions accelerate EBITDA margins and adjusted EPS improve sequentially with EBITDA margins expected to exceed 36% and adjusted EPS exceeding $2 per share in the fourth quarter.

Slide 13 provides our guidance for the second quarter of 2023. In 2Q 2023, we expect total Equifax revenue to be between $1.31 billion and $1.33 billion, with non-mortgage constant currency revenue growth of 7% to 8% partially offset by mortgage revenue declines moderating to about down 14%, compared to down 33% in the first quarter.

FX is expected to negatively impact revenue growth by just over 100 basis points. 2Q 2023 adjusted EBITDA margins are expected to approach 32.5% up over 300 basis points sequentially given revenue growth, the 2023 cost actions and lower equity compensation expense. Overall, BU EBITDA margins in total are expected to be up sequentially from 1Q 2023 driven by workforce delivering adjusted EBITDA margins of over 51% in the quarter, as well as margin improvement in USIS from revenue growth and cost actions.

Corporate expenses will decrease meaningfully, sequentially in 2Q 2023 as the equity compensation was principally reflected in the first quarter.

Business unit performance in the second quarter expected to be as described below. Workforce Solutions revenue growth is expected to be down about 1%, negatively impacted by the expected about 38% decline in mortgage market originations.

Non-mortgage revenue will be up high-single-digits, overcoming year-over-year declines in U.S. hiring and customer specific weakness in consumer lending. We expect EWS non-mortgage growth to reaccelerate to double-digits in the third and fourth quarters. EBITDA margins are expected to be up over -- are expected to be over 51%, up over 100 basis points sequentially driven by sequential revenue growth and strong execution of 2023 cost actions.

Workforce Solutions will represent just under 50% of Equifax revenue in the quarter. USIS revenue is expected to be up about 3% year-to-year. Non-mortgage revenue growth should be approximately at the level similar to the 8% we delivered in the first quarter, partially offset by a decline in mortgage revenue due to the expected 33% decline in mortgage credit inquiries.

EBITDA margins are expected to be about 34%, up sequentially due to revenue growth and strong execution on cost actions. International revenue is expected to be up about 6% in constant currency with EBITDA margins expected to be about 23%.

Non-mortgage constant currency growth of 7% to 8% is down from the 10% we delivered in the first quarter. We do expect to return to 10% plus growth in 3Q and 4Q, principally driven by accelerating growth in EWS as well as stronger growth in international. We're expecting adjusted EPS in 2Q 2023 to be $1.60 to $1.70 per share.

Slide 14 provides the specifics of our 2023 full-year guidance. As Mark mentioned, we are maintaining our full-year guidance despite the expected weaker U.S. mortgage originations and a more negative impact of foreign exchange. We expect total mortgage revenue to be down year-to-year at similar levels to our February guidance at down 8% or slightly more negative. As we discussed, we expect mortgage originations will be down 32% versus the down 30% we discussed in February. We do not expect this to impact USIS mortgage revenue, as we are seeing higher levels of shopping, which offset the decline in originations.

In EWS, we expect an improved mix of higher value trended mortgage solutions to partially mitigate the impact of the originations decline. For non-mortgage constant currency revenue, we continue to expect constant currency growth at about the levels we discussed in February at up 8% or slightly better given our strong performance in NPI and stronger growth in international. These levels of growth, the strong start we had to the year, execution in NPI, delivery of our 2023 spending reductions in cloud transformation plan, allow us to deliver to our guidance despite the more negative impact of FX. We believe that our full-year guidance is centered at the mid-point of both our revenue and adjusted EPS ranges.

As we discussed in February, we remain focused on delivering our mid-term goal of $7 billion in revenue and 39% EBITDA margins, market conditions are significantly different than we first discussed in November of 2021, our goal of achieving these goals in 2025. The U.S. mortgage market is expected in 2023 to be down about 40% from the normal 2015 to 2019 average levels, we had discussed to deliver $7 billion in revenue in 2025. Our core organic revenue has grown over 300 basis points faster than we discussed with you in November of 2021. However, a recovery in the mortgage market from the levels we are seeing in 2023 upon the order of two-thirds of the loss volume is still likely needed to achieve our $7 billion goal. We are focused on driving above market growth and delivering the cost and expense improvements committed with our 2023 and 2024 spending reduction plans and as part of our data and technology cloud transformation, which are needed to achieve 39% EBITDA margins as we exceed the $7 billion revenue level. We will continue to discuss with you our progress toward our $7 billion goal as the mortgage and overall markets evolve in 2023 and forward.

Now, I would like to turn it back over to Mark.

**Mark Begor**

Thanks, John.

Wrapping up on Slide 15, Equifax delivered another strong and broad-based quarter with above market performance delivering strong 10% non-mortgage constant currency dollar revenue growth, reflecting the breadth and depth of the Equifax business model and our execution against our EFX 2025 strategic priorities.

At the business unit level, Workforce Solutions had another strong quarter powering our results delivering 11% non-mortgage revenue growth with adjusted EBITDA margins of 50%. As I mentioned earlier, EWS signed three new payroll processors with -- and with our TWN current records reaching 156 million, up 4 million records sequentially and up 15% versus last year.

Workforce delivered another very strong quarter with a Vitality Index over 20% from innovative new products and solutions leveraging the new EFX Cloud while further penetrating the high growth talent and government verticals.

USIS continued their momentum from the fourth quarter with B2B non-mortgage growth of 8% total and 3% organic in the quarter, driven by online B2B non-mortgage growth of 9% total and 3% organic as they accelerate customer migrations to their new Equifax Cloud.

International delivered strong 9% local currency growth with strong growth in LATAM, Australia, Canada, India, and our European credit businesses. And our first quarter, Vitality Index up 13% continues to be well above our 10% long-term NPI framework as we delivered over 30 new products leveraging the new Equifax Cloud in the quarter.

And we made significant progress executing against our EFX Cloud data and technology transformation with over 70% of our revenue being delivered from the new Equifax Cloud and we're laser-focused on completing our North America migration this year to become the only cloud native data analytics company.

And we're executing against our spending reduction plans that will deliver $200 million of savings in 2023, with run rate savings of over $250 million in 2024 that will expand our margins to 36% and EPS to over $2 per share as we exit the year, which positions us for an uncertain economic environment while reducing the capital intensity of our business.

And as mentioned earlier, given our strong performance in the quarter, our ability to continue to outperform our underlying markets and deliver on our plan 2023 spending reductions, we've reaffirmed our 2023 guidance for revenue and adjusted EPS. We're entering the next chapter of the new Equifax as we pivot from building the Equifax Cloud over the past four years to leveraging our new cloud capabilities to drive our top and bottom line.

We're energized by the early benefits of the Equifax Cloud. We're delivering on the cost benefits we outlined four years ago, and you're seeing our margins expand. The competitive benefits of being always on the faster data transmission and digital macro are positioning us for share gains.

The power of a Single Data Fabric where all our data has moved from siloed environments to a single data environment is allowing us to deliver unique solutions like our new mortgage credit report leveraging NC Plus data, OneScore leveraging all our alternative -- all of our alternative data, and a wide array of trended solutions leveraging our historical data. NPIs leveraging our differentiated data and cloud capabilities are accelerating and well above our 10% long-term Vitality goal with over 13% Vitality last year and 13% in the first quarter. Even more encouraging is Workforce Solutions NPI results who completed most of their cloud work early last year and is delivering over 20% Vitality in 2023.

This is exciting time for Equifax and I'm energized about our strong above market performance, but even more energized about the new Equifax in 2023 and beyond. We're convinced that our new Equifax cloud-based technology, differentiated data assets and our new Single Data Fabric and market-leading businesses will deliver higher growth, expanded margins, and higher free cash flow in the future.

And with that operator, let me open it up for questions.

**Question-and-Answer Session**

**Operator**

Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions].

Our first question today is coming from Manav Patnaik from Barclays. Your line is now live.

**Manav Patnaik**

Thank you. Good morning. Mark, I was just hoping you could talk a little bit about what your regional bank exposure is and just broadly how you factored the credit tightening that we are hearing about into your guidance because it sounds like on a non-mortgage constant currency basis, you're actually raising the outlook a bit, which seems counter to those trends. So was just hoping you could help us parse those through.

**Mark Begor**

Yes. We -- maybe I'll start with FinTech. As you know, we have a FinTech business. Our position there is smaller than at least one of our competitors, and we've been seeing tightening in that space for a number of quarters. I think it started really almost a year ago with the FinTech tightening really from their balance sheet challenges.

We haven't seen much impact, if you go to mid-size banks, we expect them to continue to originate. There'll be some tightening there as we outlined, and we believe that's factored into our second half guidance where we expect to see a slowdown in some of the originations. But as you might imagine, the bulk of our revenue comes from the larger FIs that haven't been impacted by this balance sheet impacts or balance sheet tightening from deposits.

**Manav Patnaik**

Got it.

**John Gamble**

And in terms of full-year -- in terms of full-year, the slightly -- the comment you made about were slightly stronger given the adjustments in FX. What you're seeing is international's actually performing a little better, right? So in our 2023 guidance, we did take up our expectation for international growth by about 100 basis points.

**Manav Patnaik**

Got it. Okay. That's helpful. And then Mark, obviously, you've talked about your tech transformation a lot and you just mentioned the always on Single Data Fabric, et cetera, but with all the news around AI and ChatGPT and so forth in the media. I was just hoping you could talk about where you are with your capabilities there and the risks and opportunities you see.

**Mark Begor**

Yes. It's a great question, Manav. It's one that we've talked about before. And we've been working and deeply involved in AI on our data analytics team for a long time. You've heard us talk about NDT, which is one of our patented solutions around explainable AI that we're using both internally and with our customers, and it's embedded in our ignite solution. And our relationship with Google, as you know, we're on the Google Cloud brings very strong capabilities to us that we're leveraging to expand our AI capabilities.

And as you point out, I think this is a big I would call it a macro meaning for the industry of using AI to really drive more predictability and manage more data going forward. And we believe we're uniquely positioned to really take advantage of the AI capabilities by having number one, all our data in the Single Data Fabric, which as you know is unique to Equifax.

And then second being cloud native. As we complete the cloud over the coming quarters, principally in North America that's going to allow both Workforce Solutions and USIS to really leverage those AI capabilities to just bring new solutions and more solutions leveraging more data to our customers going forward.

**Operator**

Thank you. Next question is coming from Kyle Peterson from Needham & Company. Your line is now live.

**Kyle Peterson**

Great. Thanks. Good morning, guys. I wanted to follow-up on Manav's question, on some of -- some of the concerns of credit crunch and kind of some of the shifting in deposits, but just wanted to see if in March kind of at the peak of some of the volatility with the regional banks. Did you guys see any in disruption, whether it be. temporary or modest in volumes kind of when everything was happening with some of these regional banks or were you guys largely unimpacted given the heavier exposure to the money centers?

**Mark Begor**

Well, I would say even though, as you know, our mid-size banks, there was no impact that we could see or measure really in the -- in March or really in April so far from deposit tightening, you know what we mentioned that we've seen some tightening in some areas, FinTechs, for example number one, because of delinquency concerns in subprime consumers, which I would characterize as unrelated to the deposit and balance sheet issues that some of those FinTechs have been having. And broadly we haven't seen that impact. It's really been more just risk management from tightening around certain credit ban because of concerns around consumer exposure.

And again is that you heard my comments earlier, broadly the consumers still quite healthy and broadly delinquencies are still very manageable and low versus kind of historic levels which is allowing our customers to continue to originate. But back in February, and again, today, we still are looking at the second half as being what we characterize as some level of slowdown, and that's reflected in our guidance and how we think about our ability to deliver in the second half. And that's reflected in our reaffirmation of the full-year guidance, we think that strength of the broader businesses and remember, there's a lot of Equifax businesses that are outside of financial services. When you think about Workforce Solutions government, Talent Solutions, our employer business, many of our identity and fraud businesses in USIS are not in financial services. So there's a diversity element, of course, we have an international business is quite large that's all a part of Equifax.

**John Gamble**

Yes. As Mark mentioned in DDM, we did say in pre-screen, we are seeing some impact right from FinTech as well as smaller financial institutions. And that's really where we're seeing it in pre-screening and why pre-screen was weaker.

**Kyle Peterson**

Got it. That's really helpful color. And just as a follow-up on the Talent Solution side of the business, it seems like 1Q was at least a little better than 4Q on the revenue side of things. It seems like some of that is likely price, but just wanted to see if you guys, do you have any color? Was this predominantly pricing? Is there any seasonality? Because I guess it seems like some of the hiring data seems a little cautious from what we've seen. But just wanted to see if you could help us square the puts and takes of that sequential bump up in the Talent Solutions revenue.

**Mark Begor**

Yes. I think you point out the underlying market is declining. There's less hiring going on for sure. You have a combination of companies doing layoffs and when companies do layoffs, they generally tighten up headcount addition. So we're clearly seeing that that started in the fourth quarter and continued through the first quarter.

Really, it's kind of a similar decline. And then what's offsetting that is remember, we have a large business here, but the TAM is huge. It's about a $5 billion TAM and we've got a -- almost a $400 million business here. So we have a lot of number one penetration opportunities. So even if the market's declining, we have the opportunity to add new customers or get more market share with existing customers, which are primarily background screeners.

Number two, as you point out, every year we take up price generally in the first quarter. So that price benefit, that is in the results in the first quarter, and that's a positive. And you heard us talk about some of the new products which really is driving that penetration. We've rolled out a number of new products in the first quarter that are also benefiting the talent business.

And then last would be record additions. As we add new records, we have more jobs on our database and those allow us to have higher hit rates, when background screens are completed. So the number of levers that workforce has in that vertical, and frankly in all those verticals allows them to outperform their underlying markets quite strongly and that's inherent in their business model.

**Operator**

Thank you. Next question is coming from Andrew Steinerman from JP Morgan.

Your line is now live.

**Andrew Steinerman**

Hi John, what's implied in the 2023 guide in terms of organic constant currency revenue growth on non-mortgage basis? So this is for 2023 versus the 8% that was in the first quarter.

**John Gamble**

Yes. So I don't think we gave an organic number for the full-year, right? But what we are expecting to see as we talked about is nice strength and strengthening in our total non-mortgage growth as we go through the rest of the third quarter and fourth quarter.

**Andrew Steinerman**

Okay. Could you just talk a little bit about that acceleration in EWS? You've already been pretty clear about the international momentum.

**John Gamble**

Sure. So I think what EWS is continuing to see very good performance in government. We expect to continue to see that, that move forward as we go through the rest of the year. They're also seeing really nice progress in new product. So we're expecting to see good acceleration in NPI across --

**Mark Begor**

Record additions.

**John Gamble**

Record additions as we go through the rest of the year, as well as they added three new payroll processors in the first quarter. And we expect to see accelerating growth in records as we go through the year. So I think all of those things will help us continue to drive higher performance in non-mortgage in EWS as we go through the rest of the year.

**Operator**

Thank you. Next question is coming from Andrew Jeffrey from Truist Securities.

Your line is now live.

**Andrew Jeffrey**

Hi, thanks, and good morning. Appreciate you taking the question. Mark, you mentioned trended data in EWS, which is pretty intriguing. Can you discuss a little bit kind of what the price differential is on some of those newer trended data products? And then sort of as a follow-up, can you also just refresh us on what percent of EWS inquiries go unfulfilled today either because you don't have the data or you don't have the records in the database, and how you think those trends move over time?

**Mark Begor**

Yes, yes. Two great questions. On the first one, that's a big part of not only EWS, but across Equifax, but EWS when they completed the cloud last year was really able to unleash a lot of the capabilities around leveraging their historical dataset. And I think as you know, we keep every record so we have over 600 million records. And if you think about mortgage or you think about auto or so many other verticals understanding how much someone has paid today is very valuable.

But having the history of what they're paid and is that pay increasing? Is it decreasing? Is it staying the same? Or if you've got a employee an individual who's compensated with a sales commission on a quarterly basis or an annual basis, that won't be picked up in the snapshot today.

So trended data is very, very valuable. And we talked about in the call that we launched in I think it was in the early in the fourth quarter, a new mortgage 36 product that gives 36 months' worth of history of employment leveraging our historical data. And that's become a very strong seller inside of the mortgage space. And that sells at really multiples meaning 2 to 3x what a snapshot would sell for are basic income and employment data sales for $40 to $50 to $60. The trended data will be multiples of that because it delivers so much more predictive information for our customers. And our customers are buying it. Same thing in other verticals around that historical data is very valuable in background screening, some employers are looking for last job worked for certain jobs. Other employers are maybe in a white collar role are looking for five years' worth of history. And we obviously sell that longer history at a higher price point versus just the snapshot. So that's a big growth player for us.

And I think we talked on the comments earlier, the formal comments that Verifier revenue now is approaching 50% including historical records and that's up dramatically from a number of years ago. So that's driving workforce revenue and margins. And again, it's leveraging the cloud capabilities and our focus on new products to drive it going forward.

Your second question on records, as I mentioned earlier, there's about 220 million working or employed individuals in the United States, including a 167 million, 168 million non-farm payroll, 20 million to 40 million gig or self-employed individuals. And remember, a 1099 self-employed employee or worker could be a doctor, a dentist, a lawyer, very high paid jobs or they're also are going to be a Uber driver. So there's a wide array of employees in that 20 million to 40 million. So we're going after those records.

And then there's another 20 million to 30 million defined benefit pensioners in the U.S. and that's pension income is income that our customers want to use when someone who's retired or receiving pension income is going out to get a financial product, whether it's a mortgage and auto loan. So against the 220 million total income producing individuals in the United States we have about 117 million. So we're -- our hit rates are well north of 50%. But what the real opportunity is, as we continue to grow records and it's just a very unique lever for any business to have because as you know, we're already getting the inquiries to Workforce Solutions for every applicant that our customers have.

And when we're not able to fulfill, they have to do it manually through using paper pay stubs and calling around to employers. So as we add new records during the quarter, we're able to monetize them instantly because we already have the inquiries or the orders coming to our database. So that's why we have such a big focus and a large team of workforce solutions people focused on all those different verticals to add records to Workforce Solutions. And when you think about records being up double-digit that translates into double-digit revenue, so it's a very powerful lever for the business.

**Operator**

Thank you. Next question is coming from Shlomo Rosenbaum from Stifel. Your line is now live.

**Shlomo Rosenbaum**

Hi, thank you very much. Hey this one might be for John. Can you talk about the non -- the mortgage and non-mortgage organic Verifier revenue? I think that was given out in previous quarters, but I didn't see it on the slide. And then I have a follow-up.

**John Gamble**

So again, what we talked about, I think in the quarter is we had very good growth in total. It was about 16% I think in Verifier and then 11% growth. We didn't give a specific organic number. Acquisitions weren't that substantial in EWS in the past year so that there's really not a significant impact from acquisitions. And really what we're expecting as we just talked about a minute ago to drive the growth as we go forward is really continued acceleration in growth in government and continued addition of records, benefits of new products, as well as additional pricing that should allow us to get, to drive back to total growth in the back half of the year that's above 10% as it was in the first quarter.

**Shlomo Rosenbaum**

Okay. Thanks. And then when you talked about the new payroll processors, obviously this is a significant effort on the company's part to go ahead and continue to add the records, but I didn't see the comment that those were exclusive like we have seen in previous quarters. Was that just left out or were some of them just not exclusive?

**Mark Begor**

No. The contracts that we're signing are and will continue to be exclusive going forward. That's our plan and these work.

**Operator**

Thank you. Next question is coming from Andrew Nicholas from William Blair.

Your line is now live.

**Andrew Nicholas**

Hi, good morning. Thanks for taking my questions. I wanted to start, it doesn't seem like from the deck there was any mention of the identity and fraud business in the quarter. Just wondering how -- how that's trending both in the first quarter and what your expectations are for progression as we move through the year there.

**Mark Begor**

Yes. It's still strong growth. We should have called it out. There was not intended to not do that. We've got a lot of good things happening at Equifax and we should have highlighted that one also, as you know, we acquired Talent, a couple years ago and we've added Midigator last year and those two businesses in United States and actually globally are performing very well and continuing to deliver that double-digit revenue. So they're a part of that USIS -- strong USIS performance.

And as you know, identity is an area that is a priority focus for Equifax both around new products is around -- as also -- and also around M&A and the identity and fraud team are rolling out new solutions to really expand their capabilities, not only in count space, in the retail world, where e-commerce has been their focus. But as you know, we've got a large in expanding identity business in FI, insurance and telco, where we're bringing new solutions there also.

**Andrew Nicholas**

Great. Thank you. And then for my follow-up, I wanted to ask about mortgage growth in EWS. It looks to me like the outperformance relative to inquiry volumes has been narrowing or at least narrowed in the quarter. I'm just wondering if there's anything to read into that, is that a lower kind of normal level of outperformance to expect through the rest of the year? Or if you could just kind of unpack the 38% mortgage decline relative to the 44% decline in increase in the first quarter that would be helpful. Thank you.

**John Gamble**

Yes. I think the more relevant comparison really is against originations, right? Because USIS obviously ties very closely to credit inquiries, but EWS is much more closely tied to originations because EWS TWN data is not pulled as early in the cycle of a mortgage as credit is. So it's very closely tied to an origination.

And the 20% outperformance relative to originations, we think was very strong and very consistent with our expectations. So we feel really good about the way they're performing. And again, it's all the things Mark's already referenced, strong record growth, good performance and pricing and especially in the last couple of quarters, they've done an outstanding job of rolling out mortgage 36, which is their new trended product, which has been very beneficial in which the rollout will complete here as we get through first quarter and into second quarter. So we feel really good about their outperformance against mortgage.

**Mark Begor**

They were also off a tough comp from last year.

**John Gamble**

Very tough comp from last year.

**Mark Begor**

Very, very strong outperformance from some of the new products that were rolled out late in 2021 and into 2022. They had a very, very strong 2022 and we're pleased with their outperformance. We think it's very strong.

**Andrew Nicholas**

Makes sense. Thank you. Didn't account for that new month? Thank you.

**Operator**

Thank you. Next question is coming from Craig Huber from Huber Research.

Your line is now live.

**Craig Huber**

Yes. Good morning. Thank you. First question, can you just give us a little more detail, if you would, in the U.S. for auto in your credit card business, how that did and maybe what your outlook is for the rest of the year?

**John Gamble**

So I think we indicated that auto performed well, right? And we also indicated, I believe that that FI or banking right was about flat, right? And our credit card business was inside of FI.

**Mark Begor**

And I think we also said in the comments that what was driving the FI to flat was FinTech down, which has been under pressure from originations for a while. Some slowdown, but limited in the smaller banks and continued growth with the larger FIs. So there was kind of a balancing impact in there.

**Craig Huber**

And my final question guys, your uses of free cash flows, your thoughts here changed. Do we expect anything different here than other than just potential debt paydown?

**Mark Begor**

Yes. We're still focused first and foremost on growing the company and expanding our EBITDA margins. And I think as you know, Craig as we complete the cloud, our CapEx will come down, it's down this year. It'll -- our plan is to take it down again next year. So that's going to expand our free cash flow.

Certainly, our margins will continue to expand. And when we think about uses of free cash flow, no change, our 1 to 2 points of revenue growth from bolt-on M&A is a part of our capital allocation strategy. And then as you know, we've got Boa Vista in the pipeline to add to Equifax, which is actually a bit north of that 1 to 2 points of revenue growth.

And then we've been very clear that in the future, as our margins move towards that 39% in 2025, our free cash flow will continue to expand and excess free cash flow beyond what we use for M&A and CapEx. We want to return to shareholders at the right time, through buyback and dividend. And that's certainly a part of our plan in the future.

**Craig Huber**

Sorry.

**John Gamble**

Very near-term, right? We're focused on reducing leverage and as we move through 2023 and early 2024, you'll see us focus on leverage reduction. And I think in the back half of the year, focus on integrations, obviously as we complete BVS and integrate the other acquisitions we've done over the next couple of years.

**Craig Huber**

Sorry. Back on the first question for auto and credit card outlook for the second half of the year. Can you just touch on that a little bit further? Thank you very much.

**John Gamble**

Yes. So we didn't really give a forecast by segment, right? But I think what we did talk about is that embedded in our guidances and expectation is we'll see generally weakening markets as we go through the rest of this year. That's certainly true in the U.S. in the back half -- sorry, in the back half of this year in the U.S. but also in most of our international markets. We didn't give specific forecasts around auto and/or FI.

**Operator**

Thank you. Next question is coming from Kelsey Zhu from Autonomous Research. Your line is now live.

**Kelsey Zhu**

Thanks for taking my question. So LinkedIn is introducing an employment verification product. I was wondering does that impact how you think about EWS pricing or growth trajectory at all.

**Mark Begor**

We don't. There's a number of solutions out there from FinTechs and as you know experience got a business there too. The scale of our dataset, our ability to continue growing that dataset and the fact we get verified records directly from the source meaning the company's payroll records and the depth of the record also as you probably know we get over 50 attributes in every payroll record that includes name, social, date of birth, job title, which is very important for our employer vertical.

But then all kinds of details on the payroll, gross pay, net pay, deductions, stock compensation, incentive compensation, sales compensation, hours worked, et cetera. So the depth of our database, the fact that it's current every pay period, and the scale of it really gives us a very strong position.

And then last, I think as you know, we have system to system integrations that we've built in all of our verticals where as a part of their workflows, our customer's workflows, they hit our database. So we're hit first. Where solutions like you described or some of the FinTechs play in is where there's not a verification available from Workforce Solutions, and you have to go to another source, which is typically manual. And that's why we have a partnership with Yodlee, where we do bank transaction data and there's other solutions like that. But you've seen continued super strong growth from workforce because of the uniqueness and scale and depth of the dataset.

**Kelsey Zhu**

Got it. Super helpful. My second question is on consumer solutions. So the strong growth there, I was wondering, is that more driven by volume or market share gain?

**Mark Begor**

Yes. That's a -- that business is a direct-to-consumer business that where we sell credit monitoring solutions and other solutions like that. It's really the business has rolled out some new products. It's leveraging our new cloud capabilities and just having better performance in some of the success rate of landing new consumers that want to use our credit monitoring solutions in the marketplace.

So we're pleased with that performance and having it return to growth, you may recall that it struggled a year ago, two years ago. And as we got into the cloud and leveraged those capabilities and rolled out the new products, we've had some better performance, which we're pleased with.

**Operator**

Thank you. Next question today is coming from Jeff Meuler from Baird. Your line is now live.

**Jeff Meuler**

Yes. Thank you. Good morning. So I guess I had a different take on the Verifier Talent. I guess that the revenue dollar stepped up sequentially, but when I look at the year-over-year, I guess revenue plus 10, gross hiring minus 6, I think that's an industry metric. And then records plus 15, mathematically that seems like the story. But you're calling out several other, I guess, structural growth drivers or factors. I know you've gotten asked a lot about one specific situation referenced by another public company, but just if you can help me on the other structural growth drivers or if there's any other offsets to them we need to consider. Thank you.

**John Gamble**

One thing I would change in your walk there, Jeff, I think you're hitting a lot of the right points is the record growth. Remember, in Talent, we use our historical records and current records growth is very important, but most of what we're leveraging is not records from the quarter in that business, it's records over the last year, two-year, three-year, four-year, five years. So that that isn't going to be quite as big an impact as far as higher hit rates as we add in essence what you're adding, you want to add is more jobs.

New product rollouts as we talked they've rolled out a couple new products actually a number of new products over the last 12 months to 18 months. So those are benefiting kind of on a year-over-year basis as they're embedded in with our customers principally background screeners. And we rolled out a couple new ones in the quarter; one for the hourly workforce that we think is going to provide growth to us going forward. And then the other growth lever for that business to offset a declining market is just pure penetration. Remember, we're doing in rough kind of high-level math, 2 in 10 or 3 in 10 background screens are using our data. The others are still using the manual DPO kind of process. So that's an opportunity for the business. I don't know if that's helpful.

**Jeff Meuler**

It is helpful. Thank you. And then I'm just a 36% plus and $2 as a launching off point. I just want to make sure I'm thinking through the seasonality correctly. I guess in future years there is still some seasonally lower margin or EPS in Q1, but from timing of equity grants and other factors, but it's nowhere near as pronounced as it was in 2023 because there was a one-time catch-up in 2023 that impacted Q1. Just want to make sure I have that right. Thank you.

**Mark Begor**

So I think he's talking about the incentive compensation impact in the first quarter along with the equity compensation impact.

**John Gamble**

So -- so specific to equity, no, the impact each year is probably relatively similar, right? Because it's just the fact that the grants that are executed in the given year based on the structure of the programs now currently end up being -- the expense ends up being taken in the first quarter. As Mark mentioned, in terms of the impact on our margins going from fourth to first of 20 -- fourth of 2022 to first of 2023, we did obviously have an incremental impact as we normalize cash incentive compensation, and that's not something that we should see each year going forward, but the equity incentive compensation, yes, that's something you'll see each year.

**Mark Begor**

But I think to your question, the cost out is quite substantial meaning our cost structure is going to be meaningfully lower as we exit the year in complete the restructurings that we're talking about. And I think we've also talked, I think on the last call, we expect to have number one carryover benefit because these cost outs happen throughout the year. So we're not at full run rate of those cost actions in the fourth quarter.

So you get a benefit in 2024 that'll help our margins next year. And then we also expect to have further cloud savings in 2024 as we complete -- we're not fully complete with the cloud at the end of this year, so there'll be additional benefits from that.

**Operator**

Thank you. Next question is coming from Heather Balsky from Bank of America.

Your line is now live.

**Heather Balsky**

Hi, thank you for taking my question. Can you help update us on your plans around your USIS product launch strategy now that you've finalized your tech transformation? I'm curious; we've seen some releases around recent product launches. Should we see those launches ramp more meaningfully this year? And when do you think we'll start to see a benefit to sales from these efforts?

**Mark Begor**

Yes, 100%. Just as a reminder, USIS is not complete with their cloud transformation, but they're in the final chapters. So we're going to complete that this year. We have a meaningful number of customers already on the USIS cloud, which is a big deal. And we are -- you are seeing an acceleration of new product rollouts in 2023 already from the USIS team, you may have seen our announcement, which I didn't talk about this morning of our -- we talked about in February of our new mortgage credit report, where we're adding our cell phone utility data to that, that's going to provide a meaningful lift in credit scores for consumers by the addition of that data. And we're the only ones that can do that.

So that's going to be a very positive product for us in the mortgage space. I talked about this morning the new OneScore solution that combines our cell phone utility data, which is a very large data set for Equifax that only we have along with our Teletrack and DataX solutions on 80 million consumers in the U.S. So that's another new solution that will be additive to the credit file and differentiate USIS in the marketplace. So that's a brand new product that's out there. We also launched a new solution in our commercial business that's really driving that business growth. And that's one that's been in the marketplace, a little bit longer for a few months, but you're seeing very strong double-digit growth in our commercial business. And in that solution, we're combining our bank transaction data with -- along with our PayNet leasing trade line data, which driven -- which delivers very meaningful predictability lifts and performance lifts for our commercial customers.

So big time, we have a -- you're already seeing it the early days of them rolling out their solutions. And I think you are seeing it in some of the revenue in the businesses. And that'll continue to show up as we complete the cloud in USIS later this year.

The other lever that's going to be I think we've talked about is we expect to have competitive or market share gains from the stability meaning always on, as well as the data transmission benefits from the Equifax Cloud or USIS. So that's another lever, and we've been clear that we're in active dialogues with customers that are moving Equifax into preferred positions because of our investment in the cloud. And again, there's another USIS benefit. So those impacts on their revenue should show up as we move through 2023, but really kick in, in 2024 and 2025.

**Heather Balsky**

Thank you. That's helpful. And just as a housekeeping question, there was a $25 million adjustment related to M&A integration. Just curious, which -- what's that related to in particular is that including anything with Boa Vista or is it other past transactions?

**John Gamble**

Yes. So you're talking about the difference between our adjusted and unadjusted financials, no, we include M&A integration for a period of time outside of our adjusted EPS, and that's just the M&A integration related to the -- some of the transactions have been completed over the past 18 months.

**Operator**

Thank you. Next question is coming from Toni Kaplan from Morgan Stanley.

Your line is now live.

**Toni Kaplan**

Thanks so much. I was hoping to ask about the margin ramp in the second half. I know you talked about the $200 million of expense savings with a bulk of that coming from OpEx. But I guess just how much of the margin expansion is in the bag, if you will, based on spending that's going away versus how much is based on scale or improvement in the business?

**John Gamble**

Well, I'd say in the second half, there's a significant amount, obviously from spending reductions. And there's a lot of execution to do in order to generate those spending reductions. We feel confident that we're going to do it. But -- and we're executing very well through April on doing that, but we're focused on delivering those spending reductions and expect to do that. So it's a significant amount of the improvement in the second half.

But we also do have some revenue ramp in the second half, right? We talked about some growth that we're expecting to see in EWS, specifically around their non-mortgage segment. We're expecting to see continued strong performance across international good performance in USIS even across non-mortgage. So we are expecting to see those improvements in revenue, which will also help drive margin enhancement. So it's really in both areas. Both are meaningful and there's execution necessary for both of them in order to deliver the 36% plus margins.

**Mark Begor**

Maybe just add on that, I'm not sure I'd use your term into bag, but I would say we have a high degree of confidence because we have real visibility around the cost reductions. Those are ones where we know when contractors are going to leave and when we're going to decommission data centers, that's all in our control. So that gives us a lot of confidence and the ability to execute against that if that makes sense.

**Toni Kaplan**

Terrific. And for a follow-up, wanted to ask about work number, there've been a few income and employment verification providers moving into the space. I guess how do you see the long-term playing out? Are there specific areas where maybe new competitors can compete in like current employment more recent employment versus like you're providing a lot of value with the historical and have the advantage there? So just I guess maybe long-term competitive wise how do you see the industry playing out?

**Mark Begor**

Yes. It's not lost on us. There's other players there. The -- our biggest competitor, the way we think about it is pay per pay stubs. Almost 50% of income and employment verifications are still done manually in the United States. The scale of our dataset obviously is a real advantage, and we continue to grow that being up double-digit in records in the quarter, adding three new payroll processors, as you know, we add records through our employer solutions business as we grow that business in UC or W-2 or all the other services we provide to directly to HR managers, so scale is clearly a real advantage to us.

And as you also point out, increasingly, the historical records that we have from our decades in the business are super valuable with 50% of Verifier revenue coming from those historical records, that's very hard to get when you're a FinTech trying to get someone's bank account information that only has the net pay in it, getting that historical net pay is a data point, but it's generally not deep enough or broad enough what to use in a lot of the verifications that that we're using.

So scale is a big deal for us. The depth of the dataset meaning having gross pay through all the deductions, all those details, and then the historical records. So we're focused on expanding. I think as you know, we've done I think five acquisitions in the last 24 months to strengthen our employer capabilities there. That's a big growth lever for us to add records, and we're continuing to add payroll partners with three new ones signed in the first quarter that'll come online. So we're clearly very, very focused on expanding the record set that we have.

**Operator**

Thank you. Next question is coming from David Togut from Evercore ISI. Your line is now live.

**David Togut**

Thank you. Good morning. Could you quantify your 2023 revenue and earnings guidance? How much you've included both from pricing actions at EWS and positive price mix from the shift to trended data particularly benefited by the new mortgage 36 product? And just as a follow-up, Mark, if you could give us a broader framework about how you think about pricing in the EWS business beyond this year in terms of how you think about balancing strong unit demand versus taking price? Thank you.

**Mark Begor**

Yes, David, I think, as you know for competitive reasons and commercial reasons, we don't disclose any of our price actions in any parts of the business. I think we've been clear that the majority of Equifax businesses take price up every year. We generally do it on 1/1, and we did that this year and we expect to do it next year and going forward. So no question that that's a part of our strategy.

And when you think about price, and I know you do, you got to think about pure price, but also the impact of our new product initiatives, which generally are delivering differentiated solutions with more data and that more data drives more predictability and value for our customers and allows us to charge more for that. So new products are clearly a lever of growth for us.

And again, you should also think about Workforce Solutions in particular of having multiple levers that I would say are all important. Certainly, pure prices, pure product growth is a real margin expander and revenue expander for workforce and the rest of Equifax. Record growth certainly drives very meaningfully our top-line and our bottom line at Workforce Solutions and is very unique.

Our other businesses and most other data businesses in the industry already have all the records or have marginal ability to add to them. In our case there's 220 million working or income producing Americans in the U.S. and we've got 117 of them million. So there's a lot of growth and being up double-digit in the quarter is a big revenue growth.

In Workforce, we also have big penetration opportunities. Remember most data businesses; your dataset is used on every transaction and every customer that's highly penetrated. So because they've been around for a long time, even in mortgage, in Workforce Solutions close to 40% of mortgages are done manually income and employment verification. And that was 55 a few years ago. So we've grown that 500 basis point. So a bunch of levers beyond price is what makes workforce so unique in its ability to outperform the underlying markets that it competes in.

Your point on balance is right on you use the right word. We try to be very balanced in all of our businesses, including workforce around what we're doing on pure price in balance. How we look at it going forward is always going to be around the value we're delivering and the unique solutions that we have.

**David Togut**

Great. And just a second part of that, if you would on contribution from the increasing growth of trended data. I think John; you indicated half of units in USIS were now trended data driven.

**Mark Begor**

I think that was workforce that we said that in verification, but it costs all of the Equifax businesses. This is not a new trend. But it's one where at workforce the cloud has really enabled them to really roll out a wide array of trended solutions. And we talked about in the call earlier, mortgage 36, which is 36 months of income and employment data on an individual allows the mortgage originator to more quickly get a full picture of that consumer and allow them to approve more loans, which is what they're trying to do. They spend $5,000 to $6,000 of origination costs. They want to make sure they're working with a consumer that can close and afford the loan that they're putting in front of them. So trended is a big deal, and those trended solutions all sell at higher price points than a snapshot of the data.

**Operator**

Thank you. Next question is coming from Seth Weber from Wells Fargo. Your live is now live.

**Seth Weber**

Hey, good morning, guys. Thanks for taking the question. I wanted to ask about the strength in the international margin in the quarter. Is there anything that you'd call out there either from a regional mix or I know you talked about introducing a bunch of new products? And I -- and the reason why I ask is because it looks like your second quarter margin guide comes is down a little bit sequentially versus the first quarter. And so I'm just trying to understand what's going on there. If it's maybe your cloud migration expenses are starting to ramp or anything you'd call out on international margin. Thanks.

**Mark Begor**

Sure. So margins obviously were good in the first quarter better than we expected. Not where we want them to be long term, but better than we expected and a lot of it was driven by the really good revenue performance, right? They had very good revenue performance in all regions and really very strong revenue performance for example, stronger than you'd normally expect to see in Asia Pacific. So that along with the stronger performance across all regions, I think gave them better margin performance than we had expected. It's -- we did indicate slightly weaker in the second quarter, and that's really just related to some of the movements in revenue. There is some incremental expense as they continue to move through migration and transformation. There's certainly expense there as you go in from the first to the second quarter. But generally speaking, I think what we're expecting to see is margin performance as we described in the second quarter, and then as we move through the rest of the year, improving margin performance in international.

**Seth Weber**

Okay. Thank you. And then just I apologize if I missed this, but did you give kind of what your -- what kind of interest rate framework you guys are expecting for the back half of the year that's kind of embedded in your guidance just --

**Mark Begor**

We didn't. Yes. If I was able to do that, I'd be in a different job probably, but no, we just said we expect it to be higher inflation, I think the Feds telegraphed that and we expect it to be higher and that's why we put the slowdown in the second half of our guidance back in February and we're still sticking with that.

**Operator**

Thank you. Next question is coming from George Tong from Goldman Sachs.

Your line is now live.

**George Tong**

Hi, thanks. Good morning. What does EWS business within non-EWS, where did you see the most change in volume growth going from 4Q to 1Q and how do volume trends need to change to achieve your full-year non-mortgage EWS outlook?

**Mark Begor**

George, you're breaking up. I don't know if you're on a cell phone or a speaker. I think your questions about EWS and I believe it's around non-mortgage growth, but I didn't hear the rest of it. Can you try again?

**George Tong**

Yes. Basically trying to see where we saw the most change in non-mortgage EWS growth going 4Q to 1Q and basically how those trends need to evolve to achieve your full-year non-mortgage EWS outlook.

**Mark Begor**

Yes. So I think it's around non-mortgage in what the drivers of that EWS in 2023. First, on kind of a growth lever basis, record growth is obviously going to be positive. They did a pricing action early in the year and all the verticals, so that's going to benefit through the year. New product rollouts you've seen have been quite active with their north of 20% Vitality.

And then if you go into specific verticals, I think we've given pretty good guidance of where we think talent to be meaning we expect the market to be down, but we're going to outperform the underlying talent market. Government we expect to have very strong growth, meaning stronger than the long-term framework for Workforce Solutions. We've had some very strong success of growing that business at the state level in particular and using our data for social service delivery Appriss Insights, the business that we bought a couple years ago is performing well that's going to be a driver of growth in 2023 for non-mortgage. What would you add, John?

**John Gamble**

No, I think you covered it well, right?

**Mark Begor**

Yes. Does that help, George?

**George Tong**

Okay. Got it. That's helpful. Yes. Yes, that's helpful. And then on the mortgage, you outperformed your mortgage inquiries guidance in 1Q by about 10 points, but you maintained your full-year guidance for mortgage inquiries. Can you talk a little bit about your thinking there?

**John Gamble**

Yes. So mortgage inquiries we're not quite 10 points better in the first quarter, but they certainly were better. And what we do is we took -- we take a look at our current run rates. So as we took a look at late April -- sorry, late March and early April, we took a look at the level of inquiry volumes we were seeing, and we just run a normal year against those. We normalize them for seasonality for the year. And then based on that, what it showed us is we think we're going to come in assuming no meaningful change in the Morgan -- overall mortgage market dynamics. We'd come in at about down 30%. So that that's how we take a look, and that's how we try to measure the market. As Mark said, it's really hard to forecast interest rates or what's going to happen broadly. So we try to use our current experience and then normal seasonal patterns to determine a full-year. And based on what we're seeing in late March and early April, we think that leads to about down 30% for the year.

**Operator**

Thank you. Next question is coming from Faiza Alwy from Deutsche Bank. Your line is now live.

**Faiza Alwy**

Yes. Hi, good morning. So first, just a housekeeping question on mortgage revenue. Just want to clarify that you are still expecting mortgage revenues to be down 8%. I know you've tweaked a little bit how you're thinking about this seasonal patterns around inquiries origination, but just want to clarify that that that overall revenue expectation.

**John Gamble**

Yes. That's what we said. We said mortgage down 8% or maybe slightly more negative than that. And it's really driven by the fact that we're not seeing as we just to the last question seeing a change in inquiry volume for USIS despite the fact that originations are weaker, right? So that not a big impact on USIS of weaker originations and -- but the weaker originations do impact EWS and we're expecting that they'll be able to principally offset or at least partially offset a portion of the negative impact of lower originations by better mix. And it's specifically around mortgage 36 and increasingly more trended products. So that's how we got to down 8% or maybe slightly more negative.

**Faiza Alwy**

Understood. And then there's been as you know, we talked about this couple quarters ago regarding the FHFA change around the credit score models, which is now being implemented in 1Q 2024. I'm curious what you're hearing from lenders and how you expect that to play out next year?

**Mark Begor**

Yes. We're not hearing much. As we've said many times and as when that was announced I think the industry is still trying to figure out how to implement or if they implement this. There's still discussions going with the regulators about the merits of that change and what meaning does it make sense? The three credit reports actually provide more access to credit. So that's a dialogue that's still happening.

But whatever impact it'll be, it'll take some time to be implemented. Even with the so-called first quarter implementation, the mortgage originators can still pull three credit files. It's not mandatory to pull two, it's mandatory to pull three today. Now it'll be mandatory to pull two or more going forward.

So the implementation will likely be delayed. And then I think as you know, we've also proactively not aligned with this, but the timing was great, rolled out our new mortgage credit file that has the cell phone utility data elements in it that's going to really drive the value of our file versus our competitors. It's something they can't do because of the scale of our cell phone utility database. So we're trying to position our file as being more valuable in going forward.

And then maybe one last point, as you know they also -- what is also mandated is to go from one credit score being the FICO score to be two credit scores FICO and Vantage. And that's a good guy for us and our competitors, two scores is going to allow us to have a revenue increase versus one. And I think the thinking there is it's going to -- there's enough differences between the two scores, just like there are between the three credit files that the two scores will drive access to credit and drive predictability and approvals.

**Faiza Alwy**

Yes. Understood. If I may just ask John a quick question on cash. I know you don't guide to cash flow, but can you give us -- and you mentioned CapEx, but can you give us sort of some of the other factors that we should be thinking about as we model our own cash flows?

**John Gamble**

Well, obviously, you covered earnings and capital spending, right? Obviously, working capital is something that we continue to focus on. Generally speaking, as you look at the year, right, our working capital tends to be much more negative in the first quarter, like you saw this year, like you've seen every year because of the fact that we pay out benefit programs in the first quarter, our compensation programs and also we make our 401(k) match, right? So you tend to see a negative impact on our cash flow in the first quarter like you did this year, like you did last year. And then our cash flow tends to accelerate as we move through the year. And we're expecting to continue to make working capital improvements as we move through the rest of this year, so.

**Mark Begor**

And if you go back to our guide to exiting the year at 36% EBITDA margins, that obviously is generating a lot more free cash flow as we exit the year. I don't know whether you're modeling the year or longer-term, but that 36% stepping off point for the end of the year into 2024, and we've also -- we haven't given actual guidance, but we've used the words that we expect CapEx to come down again next year. And of course with our 39% EBITDA margin goal for 2025 there's a lot of cash flow that'll be generated from the step from now to 36% and then 36% to 39%. And we talked earlier on the call about how we think about capital allocation.

As I mentioned earlier, CapEx will come down and I think we've given guidance before John of about 7% of revenue being our long-term CapEx investment in the company, which will be more focused on new products going forward versus the cloud transformation.

We also have in our long-term framework to add 1% to 2% of revenue from bolt-on M&A. So that'll be a element of our free cash utilization. But as you get out to 2024 and 2025, there'll be excess free cash flow. That'll be quite meaningful that we intend to return to shareholders through dividend and buyback at the right time.

**Operator**

Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Trevor for any further or closing comments.

**Trevor Burns**

Yes. Thanks for everybody's time today. And please follow-up if any questions.

Thank you.

**Operator**

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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