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Equifax, Inc. (EFX) CEO Mark Begor on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release *10-Q*

EPS of $1.48 beats by $0.03 | Revenue of $875.7M (4.97% Y/Y) beats by $5.31M

Earning Call Audio

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Equifax, Inc. (NYSE:EFX)

Q3 2019 Earnings Conference Call

October 24, 2019 8:30 AM ET

Company Participants

Mark Begor - Chief Executive Officer

John Gamble - Chief Financial Officer

Conference Call Participants

Manav Patnaik - Barclays

Toni Kaplan - Morgan Stanley

Kevin McVeigh - Credit Suisse

Greg Mihalos - Cowen

Gary Bisbee - Bank of America Merrill Lynch

Jeff Meuler - Baird

Bill Warmington - Wells Fargo

Andrew Steinerman - JPMorgan

Brett Huff - Stephens

Andrew Nicholas - William Blair

David Togut - Evercore ISI

George Tong - Goldman Sachs

Shlomo Rosenbaum - Stifel

Operator

Good day everyone and welcome to the Equifax Third Quarter 2019 Earnings Conference Call. Today's conference is being recorded and at this time, I would like to turn the conference over to John Gamble. Please go ahead, sir.

John Gamble

Thanks and good morning, welcome to today's conference call. I'm John Gamble, Chief Financial Officer. With me today is Mark Begor, Chief Executive Officer. Today's call is being recorded. An archive of the recording will be available later today in the Investor Relations section in the About Equifax tab of our website at www.equifax.com.

During this call, we will be making certain forward-looking statements including fourth quarter and full year 2019 guidance to help 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 inherent in our business are set forth in filings with the SEC including our 2018 Form 10-K and subsequent filings.

Also, we will be referring to certain non-GAAP financial measures including adjusted revenue, adjusted EPS attributable to Equifax and adjusted EBITDA, which will be adjusted for certain items that affect the comparability of our underlying operational performance. For the third quarter of 2019, adjusted revenue excludes one-time settlements in the third quarter of 2019 with commercial customers. Adjusted EPS attributable to Equifax excludes one-time settlements with commercial customers in 3Q 2019, costs associated with acquisition-related amortization expense, the income tax effect of stock awards recognized upon vesting or settlement, the foreign currency losses from remeasuring the Argentinean peso-denominated net monetary assets.

Adjusted EPS attributable to Equifax also excludes legal and professional fees related to the 2019 cybersecurity incident, principally fees related to our outstanding litigation and government investigations, as well as the incremental non-recurring project cost designed to enhance our technology and data security. This includes projects to implement systems and processes to enhance our technology, and data security infrastructure, as well as projects to replace and substantially consolidate our global networks and systems, as well as the cost to manage these projects.

These projects that will transform our technology transformation and further enhance our data security, were incurred throughout 2018 are expected to occur in 2019 and 2020. Adjusted EBITDA is defined as net income attributable to Equifax adding back interest expense, net of interest income, income tax expense, depreciation and amortization and also as is the case for adjusted EPS, excluding one-time settlements with commercial customers, cost related to the 2017 cybersecurity incident and foreign currency losses from remeasuring the Argentinean peso-denominated net monetary assets. These non-GAAP measures are detailed in reconciliation tables which are included with our earnings release and are also posted on our website.

Before Mark discusses our specific operating and financial results for the quarter, I wanted to address the $20 million in one-time commercial resolutions with two USIS commercial customers we recorded in the third quarter. These commercial resolutions related to issues that occurred prior to this year. As these settlements were to resolve commercial disputes, they were treated under GAAP as a reduction to revenue in the quarter.

Due to the size and one-time nature of these commercial resolutions, we have excluded them in our adjusted results. As Mark and I discuss results for the third quarter of 2019, we will be discussing revenue excluding these one-time revenue adjustments.

Over the next couple of months, Trevor Burns who leads the Equifax Investor Relations Group will be taking a medical leave of absence. In the interim, please direct any request for information or meeting requests to Valerie Robinson, at 404-885-8110 or to Valerie.robinson@equifax.com, that’s valerie.robinson@equifax.com. Valerie will connect you with me or identify the appropriate Equifax resource to address your inquiry. Thank you for your patience in getting your inquiries resolved during this period of time.

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

Mark Begor

Thanks, John, and good morning everyone. We were very pleased with our financial results for the third quarter. The third quarter results were broad based, showed sequential improvement or above guidance and were another very positive step forward for Equifax.

Adjusted revenue at $896 million was up 9% in constant currency and up 8% on an organic constant currency basis and well above our guidance. We had strong adjusted revenue growth driven by our U.S. businesses that were up 11% combined with Workforce Solutions up 19% and USIS up 9%, our strongest growth for both units in three years.

Global consumer revenue was up slightly, its first period of growth in two years and international also showed 5% constant currency growth with Latin America, Canada and Asia-Pacific all showing growth in the quarter, but continue to be pressured by the slowdown in Australia and Brexit uncertainty in the UK.

U.S. mortgage revenue was much stronger than we expected in the quarter, as U.S. mortgage market increase were up almost 20% compared to the prior year. We also saw strength in our U.S. non-mortgage businesses with USIS and EWS, both showing accelerating year-to-year growth.

Our adjusted EBITDA margins advanced 90 basis points in the quarter, our first margin expansion in two years and our adjusted EPS of $1.48 per share was also above the top-end of the guidance we provided in July with those better business unit margins from stronger revenue growth, as well as the lower tax rate. USIS adjusted revenue was up 9% versus 2018 on a reported basis and 6.5% on an organic basis.

Importantly, our non-mortgage revenue grew over 6% in the quarter and 3% organically compared to last year. The 3% non-mortgage organic growth was a positive sign of continued USIS strengthening versus the flattish performance we saw in the second quarter of 2019, but slightly weaker than we anticipated. Online adjusted revenue was up a strong 11.5% on a reported basis and up 8% on an organic basis, which was also a very positive sign of USIS recovery.

In addition to strong growth in mortgage, we saw growth in ID and fraud, as well as auto, insurance and government.

Mortgage solutions was down 6% in the quarter due to the mix shift we discussed previously with mortgage resellers which occurred in the fourth quarter of 2018, partially offset by the positive impact from the stronger mortgage markets. We expect a revenue headwind from this mortgage mix shift to decrease in the fourth quarter.

New product sales and implementations to mortgage lenders were also deferred as our customers focus on delivering the substantially higher mortgage volumes that they had in front of them.

Financial Marketing Services adjusted revenue was up 8%, compared to last year and was better than our expectations. The growth in FMS reflects the growing pipeline that we discussed over the past couple of quarters. As we talked about last quarter, FMS growth is improving, but still choppy with year-to-date growth of about 2%.

As we look forward to the fourth quarter, we expect growth to be at or above the year-to-date growth rate. Sid Singh and the USIS team are laser-focused on growth and in moving to a normal commercial mode with their customers. Their new deal of pipeline is up 75% year-to-date with wins up 35% from 2018 positions them well for fourth quarter and 2020.

Growth in key verticals like banking and lending also is a very positive sign. The third quarter was another positive step forward for the USIS team as they work to return to a normal growth mode. We continue to believe our differentiated data assets coupled with our technology investments will return USIS to its traditional and historic growth mode.

We expect continued growth from USIS in fourth quarter, but we still remain cautious on the pace of their recovery. USIS EBITDA margins of $44.4% were down 180 basis points from third quarter 2018 primarily driven by increased royalty costs as well as higher product development expense and investments in commercial resources which we expect to benefit us in the future.

Shifting to Workforce Solutions, they had an extremely strong quarter with revenue up 19% compared to last year which was better than our expectations. Verification Services was up a very strong 29% driven by broad based strong double-digit growth across mortgage, debt management, talent solutions, healthcare and government verticals.

The strong verification services revenue growth also reflects continued growth in work number active records as well as the rollout of new products. EWS and Verification Service revenue growth excluded the benefit – excluding the benefit of the mortgage market were up 13% and 20% respectively, which we are very pleased with.

As we've discussed in prior discussions, EWS has strong future growth potential as they continue to expand in existing verticals and rollout new products.

As I mentioned earlier, EWS continued to substantially grow their twin database. Twin now has over a 100 million active records and about 80 million active unique individuals in the United States. These compare to the roughly 165 million individuals in U.S. non-farm payroll.

These twin record additions are huge accomplishments for Rudy Ploder and the EWS team, which drive higher hit rates for our customers and benefits the U.S. consumers. We expect to continue to grow the twin records in the future.

Employer services declined in the quarter 5%, slightly below our expectations, driven principally by workforce analytics, our ACA business, as well as unemployment claims businesses. Offsetting the decline in Workforce Analytics, we saw slight growth in our I-9 and onboarding business. We expect employer services revenue to decline mid-single-digit percentages in the fourth quarter.

The strong verifier revenue growth resulted in very strong adjusted EBITDA margins of 48.8%, an expansion in the quarter of 130 basis points. Margin expansion was dampened somewhat by incremental and costs incurred in the quarter by EWS to board some new Twin record contributors.

We expect EWS EBITDA margins to continue to be very strong in the fourth quarter. Workforce Solutions is a franchise business for Equifax and continues to perform exceptionally well.

Shifting to international, their revenue was up 5% in local currency, but down on a reported basis by 2% and below our expectations. The majority of the weakness versus our expectations was in the UK and we expect it to continue in the fourth quarter with some of the Brexit uncertainty.

Asia-Pacific was up 2% in local currency in the third quarter as we begin to lap weakening in Australia consumer lending and commercial credit markets that began in the third quarter of 2018. The third quarter performance was also weaker than we anticipated.

In the third quarter, we saw some nice growth in Australia in our commercial business and our consumer business returned to nominal growth. Both of these, we see as positive signs for the future. We continue to see weakness in our Australian marketing service business, which we expect to continue into the fourth quarter.

Overall, Australia revenue was down slightly and slightly weaker than our expectation. While we are beginning to see stabilization in the Australia credit markets, we expect market growth to remain weak over the next several quarters, as a result we expect Australia revenue to hover around flat over the next couple of quarters.

We continue to make very good progress with positive data in Australia and by the end of the third quarter, we had almost 8% of positive data from Australian contributors. We expect this additional data to be a new lever for growth for our team in Australia in the future.

Our European business was flat in local currency in the third quarter and was weaker than our expectations in both our credit and debt management businesses. Our European credit business was up over 1% in local currency, an improvement from the down 1% in second quarter, but still weaker than the mid-to-high single-digit revenue growth we have seen over the past year.

Consumer online and batch which represents about half of the credit revenue grew almost 4% in reseller and financial verticals, but this growth was offset by weakness in marketing services and insurance. Our European debt management business declined 3% in local currency or less than $1 million, principally driven by declines in our business with the UK government which was impacted by the continued Brexit uncertainty.

We expect some limited improvement in our European business in the fourth quarter, principally in Spain. In the UK, our plans reflect continued slow growth from the continuing Brexit uncertainty and its impact on both our credit and debt management businesses.

Our Latin America business grew a strong 15% in local currency in the quarter. This has improved from second quarter growth of 8%. We saw a double-digit constant currency growth in Chile, Argentina, Ecuador, Uruguay and Mexico and high-single-digit constant currency growth in Paraguay. We are seeing growth accelerate as our Latin American businesses benefit from the expansion of Ignite rollouts and InterConnect SaaS rollouts and strong NPI rollouts from both 2017 and 2018 taking a hold in that region.

Canada grew almost 6% in local currency in the third quarter reflecting a continued focus on customer innovation and new products and we expect to see mid to high-single-digit growth in Canada in the fourth quarter. International adjusted EBITDA margins at 30.9% were up a 150 BPS in the quarter, principally reflecting higher revenue and margin in Australia and Latin America and from the cost actions taken in the fourth quarter of last year, and earlier in 2019.

Margins were lower than our expectations due to the weaker-than expected revenue performance. We expect international revenue growth in the fourth quarter to be at about similar levels to the third quarter and we believe this positive revenue growth, along with the full benefit of the cost reductions taken in the fourth quarter of last year and during 2019, we'll continue to improve margins in the fourth quarter.

That said, we are watching our international business closely, particularly as the UK Brexit process unfolds.

Global Consumer Solutions revenue was up about 0.5% on a reported basis and up 1% on a constant currency basis in the quarter, a substantial improvement from a 6% decline in the second quarter. This is the first quarter of GCS revenue growth since the 2017 cybersecurity incident.

Our Global Consumer Direct business was down 5% and was just under half of our total GCS revenue. Our U.S. Consumer Direct business saw a revenue decline of 9% versus 2018. We are seeing subscriber additions from the restart of marketing in late 2018, however, at a lower rate, given our decision to slow advertising around our announcement of the legal settlements in July.

Our Canadian and UK direct businesses, both grew revenue in the quarter. Our GCS partner business which is slightly more than half of GCS revenue increased 6% in the quarter which we were pleased with. We expect our partner revenue growth to continue in the mid-single-digits in the fourth quarter.

During December of 2018, we launched our new myEquifax membership program for U.S. consumers. To-date we've registered over 2 million consumers and we expect this base to continue to grow in the coming months creating an attractive base across our products and services to those consumers.

Adjusted GCS EBITDA margins of 24.9% decreased 340 basis points as compared to the prior year. However, margins increased 200 basis points sequentially from the second quarter of 2019. As we expected in the third quarter we saw the effective revenue growth and the benefit of cost actions taken in the fourth quarter of 2018, and earlier this year.

Margins were also negatively impacted in the quarter by some one-time set up costs incurred during the quarter related to a new multi-year GCS contract. Our GCS business is clearly turning the corner and we expect continued revenue growth and margin expansion in the fourth quarter and into 2020.

Shifting now to our EFX 2020 technology transformation, we achieved some significant milestones again in the third quarter. First, we achieved a major milestone as we began running two data exchanges in production in our new cloud data fabric on GCP. Our U.S. consumer credit database replica or ACRO is in production on the data fabrics.

We are going to receive many benefits from having this database in a cloud format. One of the benefits of this cloud database structure allows us to deliver virtually streaming data and alerts to our customers.

During the quarter, we rolled out this market-leading capability to one of our large U.S. customers. Its real-time capability is increasingly important to many customers and is only possible on a cloud infrastructure. One of the many benefits we expect to come in the coming quarters as we continue to advance our cloud initiative.

Second in identity validation exchange that manages individual and household data using our identity products also moved to production on GCP this quarter. This was a full exchange migration with the legacy exchange being Sunset in early 2020.

We are expecting significant further data fabric and exchange progress in the fourth quarter, as the work number and CTUE in our auto databases in the U.S. will be in production on our new cloud-based data fabrics using standard common native data fabric structures.

These are critical milestones for Equifax as the new data fabric capability allows us to easily access and build new products across these data assets with real speed and market-leading stability.

Also in the fourth quarter, Cambrian will be in production in our data fabric using cloud-native structures. We are expecting accelerating progress in the fourth quarter and first part of 2020 as our U.S. consumer and commercial credit IXI Wealth and Tax Forms Data Exchanges will also be in production in our new data fabric using our cloud-native structures.

We feel very good about our progress with data exchanges and data fabric as a part of our EFX 2020 technology transformation and we are clearly accelerating our migrations to our new cloud-based data fabric from legacy infrastructure.

Second, we continue to make very good progress in deploying our integrated online service platform that combines our Ignite Analytics Attribute management and modeling environments with our InterConnect interfaces and decisioning production platforms at AWS and shortly also at GCP. A number of new products for both consumer migration and new customers are available on this platform in the U.S. and select international markets today.

Product availability will expand continuously with broad product availability in the U.S. expected to be – expected in the first half of 2020. Next in the third quarter, we made substantial progress deploying our new network fabric in the U.S., Europe and Australia.

This new network fabric allows us to move traffic securely and directly between Equifax, our customers and our virtual private cloud environments on GCP and AWS to substantially improve network performance and stability and strengthen our security.

Network performance is critical to allowing our customers and partners to take full advantage of the expanded services I discussed earlier. Our new network will deliver industry-leading performance to our customers.

Finally, the strong progress across data fabric, Ignite and Intertech deployment and product development in network fabric are the critical enablers that are supporting the migration of our customers from our legacy decisioning and interface systems onto our new native Ignite InterConnect product suite.

We are now seeing good progress in both collaborative planning, with customer migrations, as well as executing those migrations. Customer migrations will continue in the fourth quarter and accelerate as we enter 2020. We expect to complete the majority of USIS and EWS customer migrations by the end of 2020. And year-to-date, we have decommissioned five datacenters globally and these decommissionings will continue through the balance of the year and into 2020.

As we discussed previously, the benefits and savings we expect to deliver from our cloud technology transformation are driven by our move to a cloud-based infrastructure and a decommissioning of our legacy infrastructure and as you can see, we are making progress there.

I hope this gives you a sense of the positive progress we are making in our technology transformation that will deliver new cloud-based technology to our customers. We are laser-focused on execution and are making good progress with critical milestones achieved in the third quarter and good momentum as we move into fourth quarter and 2020.

Shifting now to new product innovation, this continues to be a key component of our EFX2020 strategy and a strong long-term muscle for Equifax. We have an active pipeline of new products at various stages in the funnel and we expect to launch about 70 products in 2019, which is up about 15% from last year and up from the guidance we gave you a few months ago.

Importantly, USIS product launches are expected to double in 2019 from 2018. We have prioritized our focus and resources on driving NPI rollouts in 2019 and plan to continue this focus in 2020. This is a very good sign as we collaborate with customers to bring new products to market. NPIs continue to be an important growth lever for Equifax.

Across both USIS and Workforce Solutions, we are seeing good progress with our new identity validation and fraud identification products. InstaTouch ID Twin ID and Eligibility Advisor are helping commercial and government customers validate the identities of parties with whom they are interacting with through mobile and other digital devices.

Our capabilities in identity and fraud will expand substantially in the fourth quarter with the launch of our new Luminate fraud and identity platform.

Shifting to the M&A and partnership front, in September, we announced a new strategic partnership with Urjanet, a leading aggregator of utility data that was delivering data from over 6500 utilities, telecom and cable providers. This new global partnership empowers consumers and businesses to share their payment data for a more complete picture of individual payment history, easier identity at verification and the potential for expanded access to credit.

An average U.S. consumer has three to five relationships with their electric, gas, cable, satellite and telco providers which adds rich payment data to that provided and existing credit file. This alternative data partnership builds on our leadership in this space incorporating Urjanet’s consumer permission data into our differentiated data assets.

Strategic partnerships like Urjanet are an important growth lever for Equifax and we continue to look for new opportunities to expand our datasets around the globe. The PayNet acquisition we executed earlier this year is performing very well with revenue growth accelerating to 15% since the acquisition.

We are also seeing the improved coverage and predictability of the combined PayNet and Equifax commercial databases allowing us to win new business with new commercial lending, credit card and fin-tech customers.

Wrapping up, the third quarter was a very positive step forward for Equifax as we move back to our normal – as we work to move back to our normal growth mode. We delivered broad based growth with very strong double-digit growth at Workforce Solutions, improved sequential growth at USIS, our return to growth at Global Consumer, and stabilization in the international while they operate in some challenging markets.

This was the first in over two years that we delivered – first off – first also in over two years was that we delivered margin expansion while continuing to invest in our technology, security, new data assets, new products and expanded commercial resources.

Overall, we are very pleased to not only meet, but exceed our financial commitments and importantly, we achieved several critical milestones in our EFX2020 cloud technology transformation. We know that we still have a lot of work to do. We are energized about the positive progress of the business and the momentum behind our EFX2020 initiatives.

We expect continued positive progress during the balance of 2019 and into 2020. I am more excited than ever about our future as a market-leading data analytics and technology company and with that, let me turn it over to John.

John Gamble

Thanks, Mark. I will generally be referring to the financial results from continuing operations represented on a GAAP basis, but will refer to non-GAAP results, as well.

First, some perspective on 3Q 2019. 3Q 2019 adjusted revenue and EPS exceeded our guidance range and expectations substantially. Stronger than expected mortgage market inquiry growth benefited overall Equifax adjusted revenue by about $25 million, partially offsetting this adjusted revenue benefit were; international revenue was weaker than expected, principally in the UK and to a lesser extent in Australia.

Global consumer revenue and U.S. Consumer Direct was weaker than expected reflecting the impact of the recent settlements. And USIS showed continued progress and improved non-mortgage revenue growth, however saw some weakness in mortgage solutions and other areas.

FX movements in the quarter were negative to revenue by about $4 million more than expected. Adjusted EPS was also strong. About $0.05 per share stronger than the midpoint of our guidance or about $0.04 per share excluding the net of the $0.02 benefit of the lower tax rate and $0.01 more negative FX. Increased mortgage revenue did drive a meaningful benefit to income in the quarter.

The offsets to adjusted revenue that I just referenced also acted to partially offset this income benefit. In addition, negatively impacting costs were, Global Consumer and Workforce Solutions incurred the significant one-time startup and implementation cost that Mark referenced earlier. Development and implementation spend increased at both USIS and Workforce Solutions as we invested to reaccelerate NPI.

And in the second half of 2019, we are seeing increased depreciation in cloud costs as our transformed systems move into production. In the third quarter, total non-recurring or one-time cost related to the cybersecurity incident and our transformation were $77 million and consistent with expectations. This includes $65 million of technology and security, $10 million for legal and investigative fees and 42 million for product costs.

We expect 2019 one-time cost related to the cybersecurity incident and Equifax 2020 technology and data security transformation exclusive of any legal accruals to be about $350 million. For all of 2019, U.S. mortgage market increase were expected to be up about 7% versus 2018, which is stronger than the down 1% we had expected for July – for 2019 in July.

3Q 2019 inquiries were up almost 20% versus the up 3% we had expected in July. Inquiries in 4Q 2019 are expected to be up over 20%. We are on track to deliver the savings from the resource realignments we executed in 4Q 2018 and 2019. Total savings from the combined actions is expected to exceed $60 million in 2019.

Savings were generated across Equifax but were more substantial in corporate international, the network force.

In the third quarter, general corporate expense was $114 million excluding non-recurring costs. Adjusted corporate expense for the quarter was $70 million, up $3 million from 3Q '18 which is more than explained by increases in security and related technology and incentive comp accruals. This was in line with our expectations. We expect 4Q 2019 corporate expenses to be higher than 3Q 2019.

Adjusted EBITDA margin was 33.9% in 3Q '19, up 90 basis points from 3Q '18. As we discussed in July and as Mark covered in his remarks the increase in overall adjusted EBITDA margins year-to-year is principally driven by growth in margins at Workforce

Solutions and in international, as well as leverage on corporate cost as revenue grows. Margin declines in GCS and USIS partially offset these increases.

For 3Q 2019, the effective tax rate used in calculating adjusted EPS was 21.2%, below the guidance we provided in July. The 3Q 2019 rate reflects discrete benefits in the quarter. The lower tax rate in the quarter benefited from a – benefited adjusted EPS by about $0.02 per share. We expect our 4Q 2019 and 2019 tax rate used for adjusted EPS to be over 23%.

In 3Q 2019, and year-to-date, operating cash flow of negative $165 million and positive $83 million were down $318 million and $424 million respectively from 2018. For both periods, these declines were more than driven by the following non-recurring items.

In 3Q 2019, Equifax made payments of $341 million against the $701 million accrual for the consumer settlement announced in the second quarter. No such payments were made in 2018. The timing of the remaining $316 million is subject to court approval and therefore uncertain, but not expected to be made until at least 1Q 2020.

Payments in 3Q 2019 and year-to-date related to the $57 million of restructuring charges taken in 4Q 2018 and 1Q 2019, were $7 million and $28 million respectively. In the first nine months of 2018, Equifax received $80 million of insurance proceeds, all in the first half, offsetting costs incurred to the cybersecurity incident. Equifax received no proceeds in 2019.

Capital spending or the incurred cost of capital projects in 3Q 2019 and year-to-date were $88 million and $286 million, down $14 million and $36 million respectively from 2018. We expect capital spending to be about $385 million for the full year in line with our July guidance. Due to the increased capital spending, depreciation, excluding acquisition of acquired intangibles is expected to be about a $190 million in 2019, up $35 million or about 23% from 2018.

As we look to 2020, depreciation will likely increase more on a percentage basis than in 2019. As we accelerate the movement of our systems to our new cloud infrastructure, cloud production cost will increase ahead of the savings from legacy system decommissioning. As we have discussed previously, cloud replaces owned assets and related depreciation.

As we exit 2019, cloud production costs will be at a rate of approximately 5% of depreciation and we expect as a percent of depreciation this to increase significantly in 2020. Excluding payments related to settlements of litigation or regulatory actions, as we look forward, we expect full year free cash flow in 2019 to exceed $200 million.

Interest expense for the quarter was $28 million, and is expected to exceed $30 million in 4Q 2019 due to financing of the $341 million of consumer settlement payments made today.

Now turning to our guidance. For 4Q '19 we expect revenue to be between $885 million to $900 million, up 7.5% to 9.5% in constant currency. Mortgage inquiries are expected to be over 20% and FX is expected to negatively impact revenue by about 1.5%. Adjusted EPS is expected to be between $1.47 and $1.52 per share.

FX is expected to impact adjusted EPS negatively by $0.02 per share and lower tax benefits in 4Q '19 are expected to negatively impact adjusted EPS versus 4Q ’18 by about $0.03 per share. 4Q '19 revenue and adjusted EPS are benefiting from the much stronger mortgage market.

We expect a number of items to partially offset the expected stronger mortgage results including, certain trends impacting revenue and operating income in 3Q ’19 will continue in 4Q, specifically in international, principally continued weakness in the UK and Australia and in GCS, the impact of recent settlements swelling GCS revenue growth.

We will also see some increased cost in 4Q from both, first, our accelerating progress in the tech transformation will have the near-term impact of increasing both depreciation and cloud production costs and second, the continuation of customer-focused investments principally in Workforce Solutions and USIS.

EBITDA margins in 4q ’19, despite these cost headwinds, are expected to exceed 35%, up about 200 basis points from 4q ’18 and up a 100 basis points sequentially. For 2019, based on our 4q ’19 guidance, our adjusted revenue guidance of between $3.507 billion and $3.522 billion is at the top-end of our previous range. Our adjusted EPS guidance range of $5.55 to $5.60 per share is at the low-end of our prior guidance.

The impact of FX is a negative $75 million to adjusted revenue and $0.15 per share to adjusted EPS and $10 million and $0.02 per share respectively more negative and at the time we provided guidance in July. Both our updated adjusted revenue and EPS guidance are consistent with the commentary we provided in July. This guidance reflects U.S. mortgage inquiries up about 7% year-to-year.

And with that operator, please open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And we will take our first question from Manav Patnaik with Barclays. Please go ahead.

Manav Patnaik

Thank you. Good morning, gentlemen. My first question was just in the USIS non-mortgage piece, you talked about the sequential improvement, but you also said it was weaker than what you expected. So, just wanted to see if you could give us some more color on which area is it fell short of your expectations?

Mark Begor

As you saw, we did very well, I think, in terms of improving the growth of our non-mortgage. And generally speaking, it wasn't any specific area. We had just expected we'd see slightly better improvement, a little bit higher than the 3% growth that we saw. So we felt we would call that out.

John Gamble

And then, Manav, We are pleased with the performance. We are pleased with sequential growth. I think we've been pretty clear with you and others that that was our expectation. We feel very strong commercial momentum with USIS and we may have had an internal bar that was a little bit higher. But we are very pleased with the performance.

Manav Patnaik

Got it. And then, just on the tax front, it clearly sounds like you guys have made a lot of progress, it sounds like you have a lot more visibility into it. So, I guess, could you just remind this again on the kind of savings, cost savings that you've talked about before? And if there is any update on timing and how we should be thinking about that?

John Gamble

Yes, no change in what we've talked about the last couple quarters on the benefits we expect from the tech transformation. And as you know, we expect that to come in a couple of different vectors. One is, we expect it to enhance our competitiveness in the marketplace. Our ability to rollout new products.

The stability benefits to deliver the speed and the example that I shared earlier of our ability now to deliver real-time streaming of alerts and inquiries is something that wasn't possible before. So those are the benefits that should come from the top-line. We are starting to see some of those as we rollout new products.

On the cost side, we've talked about a 15 or so percent benefit in our tech cost from a runrate standpoint and that comes, as you know from the benefits from a simpler and new cloud-based infrastructure and the one that's consolidating a lot of desperate systems. There is no change in our outlook for that. As we talked previously, both the revenue and the savings will start to feather in as we move forward and I talked about in my comments, five legacy datacenters coming off so far in 2019.

Those are cost benefits and of course we got duplicate costs in some cases. In a lot of cases now we're running duplicate exchanges on legacy and in the cloud. And that will continue in 2020 and as we prepare 2020 guidance, we'll reflect that in the guidance. But on a runrate basis, when we complete the tech transformation, we expect to get those kind of savings.

And then, the third leg on this, as we talked about is the cash conversion through – it should improve through lower development costs going forward which we expect, still expect in that kind of 20% to 25% range that will allow us to have a more efficient technology infrastructure and allow us to have more cash for acquisitions for an M&A work, as well as our dividend and stock buyback when we decide to make the decision on that.

Manav Patnaik

Got it. Thank you guys.

John Gamble

Thanks, Manav.

Operator

We'll take our next question from Toni Kaplan with Morgan Stanley. Please go ahead.

Toni Kaplan

Thank you. Good morning. On the employer services business, is growth has been a little bit slow and a little below your expectations this quarter. Can you remind us of these synergies you get from having that business under the Equifax umbrella? And would you ever consider pruning it from the portfolio or do you like the diversification it provides just given the work around unemployment claims and things like that? Thank you.

John Gamble

Yes, no. The answer is a clear no, that we view it as integral to the value proposition that Workforce Solutions delivers to companies and employers around the United States and then in other markets that we are going into. And it really provides a full suite of capabilities to the HR organization in our partnered companies and we believe that it's quite integral and during strong economic times, there is less unemployment.

So there is some pressure on that business. In other economic times when the economy is slower, we see benefits from the unemployment, but it's really integral to the value proposition that we provide to our partners and it allows us to provide real services to the HR teams and our contributors. And then also of course, get the contributed data records from them that is a part of our verification business.

Toni Kaplan

It's great. And then, you mentioned that USIS product launches were double in 2019 from 2018 and I know we don't know the size of the particular products. But should we think of that as implying, maybe a double new business level in 2020 from 2019? Or how should we think about the NPI product level as well in 2020? And if I could just sneak this in, John, you said that, 3Q exceeded expectations pretty substantially, why not raise the guidance then? Thank you.

Mark Begor

I'll leave that one to John and I'll pick the first one, Toni. On the new products, as you know, that's a real engine for growth for us and for the industry and we've had a pretty good track record and a real muscle around NPI doing in the neighborhood of 60 NPIs in 2017 and 2018.

And as we telegraphed here, three months ago, when we had our second quarter earnings call, we talked about being flat year-over-year on NPI launches in 2019 and one of the areas that we made some discretionary investments in to lean into in the second half of 2019 is around NPIs which is why we've increased the number that we are planning to rollout by about 10 new NPI launches.

And part of that is coming from USIS. When you think about USIS in 2018, they were really focused on winning back the confidence and trust of our customers and that was less focus on NPIs and now that they are returning to a more of a normal operating and commercial mode, they are really focusing on that. And as you know, USIS is one of our larger businesses in market.

So, the team under Sid Singh is just putting more of a focus on NPIs which will definitely benefit in the future. There is no question that's an engine for growth for the company and for USIS. So, we'd expect that to be another positive lever for them as they go into the fourth quarter and into 2020 and beyond.

I wouldn't attribute that to a doubling of their growth rate or any aspect of that. It's just another lever for them in the marketplace with more new products to sell to their customers along with the products that they've currently got in the marketplace.

John Gamble

Yes, just on NPIs, as you know, just remember that the bulk of the revenue from new products we accounted over three years tends to occur in the second half of year two and year three. Right, so in the first year, that doesn't tend to be that much revenue from a new product.

Mark Begor

And then maybe just adding one more point on that, we did make a delivery decision in the second half of this year to put some more resources behind NPI because, we saw the ability inside of our financial structure to kind of lean in to more future growth.

And so, we look at this as an investment as John pointed out in the future that we probably de minimus benefits in the fourth quarter from those kind of investments. But these are the benefits that are going to be bearing fruit in 2020 and 2021 and beyond.

John Gamble

And in terms of your question around our guidance and the forecast we provided, so again, I think we provided a lot of context in our prepared remarks. I think right now, if you take a look at our fourth quarter, we think it's really, it would be a very strong quarter for us. Very nice revenue growth. Margins up over 35%, up 200 basis points.

It's a big improvement despite the fact that we are seeing these increased costs, increased depreciation, increased cloud costs, as well as some of the investments Mark making. So, I think we feel good about what we provided.

Also, if you take a look sequentially, what the third quarter to fourth quarter now looks like, it looks like a very – much more normal seasonal pattern, which again gives us confidence as we look through the rest of the year.

Toni Kaplan

Thanks a lot. Helpful.

Operator

We'll take our next question from Kevin McVeigh with Credit Suisse. Please go ahead.

Kevin McVeigh

Great. Thanks. Hey, first off, best wishes to Trevor, a speedy recovery. I wanted to talk a little bit about the $20 million charge. Is that just kind of one-time? Or is there any potential we could see that again? I know, maybe just given the size of it, or is it type of thing that if occurs it's just not only not this size?

John Gamble

Yes, we view this as a one-time, which is why we've accounted for net fashion. You always have commercial issues and commercial disputes generally, there is not of this size and is with two customers and we opted to have the kind of resolution that we did at the right solution for us and for our customers going forward and we do view it as a one-time.

Kevin McVeigh

Got it. And then, the boost to the new products, the 70 from the 60 I think it was, there is a margin impact on that. Was it just the ability of maybe taking some of the over performance from the Q3 to drive some incremental revenue or just was it more an opportunity to maybe capture some incremental share in USIS?

Mark Begor

Well, the increase in new products was a delivery decision. I think John highlighted a number of areas where, like any business, we make trade-offs about where we are going to invest and how much and as we've gotten into the second half of the year, and we see some visibility of USIS continuing its move back to what I would call, more of a more normal commercial mode.

And obviously, we had a bit of tailwind from the mortgage market. We make decisions around the future and NPIs are one. We are also investing in the second half some more commercial resources and beat on the street. John talked about accelerating some of our tech investments, moving some of our exchanges to the cloud, a little bit quicker perhaps than we anticipated.

And we also highlighted that whether it's new data assets that we are adding like Urjanet or some of the Twin additions. We looked at as being investments that are good for the future. Those are a real benefits that aren't going to as much help us in the near-term.

But, more going forward and then, we also had a couple of large customer wins that have some cost associated with this, which again is good news and in the umbrella, and on top of that we were pleased with the top-line growth either with or without the mortgage tailwind and then, the mortgage that the margin enhancement that we had and the margin momentum we expect going into the fourth quarter. There was the ability to make these kind of investments for the future which we think is smart.

Kevin McVeigh

Super. Congrats again.

Mark Begor

Thanks.

Operator

Our next question will come from Greg Mihalos with Cowen. Please go ahead.

Greg Mihalos

Hey guys. Good morning and let me also add my best wishes to Trevor for a speedy recovery.

Mark Begor

Thanks.

Greg Mihalos

Wanted to start-off in USIS. Mark, if we look at the performance in FMS and I understand that it's been choppy. But it definitely feels like there is more momentum there. When do you think you will kind of get to the point where you feel you will be able to have more confidence and in that pipeline conversion? Is that a quarter away, two quarters away? Any way you can kind of think about that part of the market.

Mark Begor

It's a great question and we think a lot about it and we've been pretty transparent with you and others as we talk about it. When you think about USIS and where they were a year ago, as you know, a year ago, we were still in security freeze with a lot of our customers and we are now pick your day, three quarters in of kind of a normal mode with customers and as we talked about in prior discussions, the rebuilding of our pipelines takes time.

We are very pleased with the rebuilding of the deal pipelines, but those pipelines are not mature meaning that they are built up over, call it a nine to 12 months timeframe from where we were kind of in the summer of 2018 following the cybersecurity breach. So, that's the element of uncertainty that John and I and the senior leadership team still have and FMS is a great example inside of USIS where we've had very good result this quarter.

Little less than we thought in the second quarter, but little better than we thought in the first, but it's choppy. And how many more quarters? I think it's a great question. We were deliberate about talking about that we still see some choppiness in USIS recovery.

But directionally, quite positive and it's certainly from our perspective getting into fourth quarter and first quarter, only being three quarters in to what I would characterize kind of a recovery in normal commercial mode. We need a couple more quarters to kind of see that with some more clarity.

Greg Mihalos

Okay. Thanks for the color. And just as a follow-up, I think you mentioned that some mortgage-related NPI was pushed out given how strong the volumes were. I am assuming that now would be more of a driver for 2020. Is there any way to kind of quantify that for us? And then, on the margin front for USIS, were there any sort of one-time cost there that might not recur as we think about the fourth quarter?

Mark Begor

Yes, in the first one, the mortgage discussions, as you might imagine, our customers right now, with this kind of mortgage inquiry growth they are flat out and we've got, like others, probably in our space, we've got a number of NPIs that we've either been working on or we are working with those mortgage customers and those had to go on hold.

We suspect that there won't be lot of activity in the fourth quarter either as inquiries continue to be quite strong meaning they are really focused on operating their businesses versus adding some of the new features and ideas that we have.

So, we are going to keep working on that. But my expectation is that those will probably be some deferral of that activity into early 2020 when things perhaps calm down on the mortgage originations side. John, do you want to touch the margin one on USIS?

John Gamble

Sure. Look, on the cost – was your question specific to USIS or Equifax broadly?

Mark Begor

I think it was USIS.

Greg Mihalos

USIS.

John Gamble

Yes, so, again, USIS is, I think, Mark mentioned right, we did have an uptick in development spend, right? And a focus on development spend in other areas and overall, that is occurring and as we mentioned in the script, right, royalties are higher. And that's also impacting margins. But, in terms of one-time, I wouldn't call them one-time. I'd say our – the uptick in development spend is something that we intend to continue, perhaps not at quite this level. But we intend to continue going forward and we continue to invest in the commercial teams there.

Operator

And caller, does that answer your question?

Greg Mihalos

It does.

Operator

We will take our next question from Gary Bisbee with Bank of America Merrill Lynch. Please go ahead.

Gary Bisbee

Hi guys. Good morning.

Mark Begor

Good morning.

Gary Bisbee

I wanted to dig in a little bit more into the concept of duplicate technology cost beginning to emerge as you are paying for usage on the cloud, but you still got the legacy tech cost. First, I just wanted to, John, clarify your comment, when you said, $190 million of depreciation, 5% as you exit the year. So you are talking $9 million or $10 million of cost in 2019. Is that right? And that number grows as a percent of a higher depreciation number significantly next year. Was that what you are trying to say?

John Gamble

That was about it. It's a runrate. I must saying it's for the whole year of 2019 with the runrate exiting at that level. Yes.

Gary Bisbee

Runrate? Okay, all right. That's what I wanted to confirm. And then just, how – is there any color I realize depends on migrations and lot of factors, but how we should think about the growth of that duplicate costs or the growth of the cloud cost relative to the fall-off? Are there any big step functions down as you retire legacy things in the next 12 months? Or just any other color to think about that and maybe it's most… go ahead.

John Gamble

Yes, Gary, as you know that the step functions come when we unplug one of our datacenters and we've gone from three unplugged up to five this year. That's going to continue in 2020 and our plan is to give you some visibility of that when we share guidance on 2020 in the next couple of months and we'll include the duplicate cost we expect to incur in there and as well as the benefits that we expect to incur as we decommission our legacy datacenters.

Mark Begor

We also referenced in the script, right, that we moved an exchange, an identity exchange we said to the cloud and that that would be decommissioned in the first quarter. So, decommissioning one quarter out after a migration is quite fast. But generally speaking, we'd expect to see that the decommissionings would occur probably for a very large exchange hopefully within plus or minus a year, right?

So, I think what you are going to see is slowly ramping cloud costs as volume moves to the cloud. The nice thing about cloud, right, is that, as you move volume, the cost increase slowly. So you will see slow increases in cloud cost as we move volume from a large exchange and then you will actually see us as we bring down portions of the infrastructure, bring down those costs related to the legacy.

So, I know it's not a complete answer for you, but unfortunately, you are going to have to wait until we give guidance. So we can lay out to you in a little more detail how these cost ramp in and move down.

But I think in general, what you are looking at is, slow ramps for new systems as they board to the cloud and then decommissioning of those older systems and therefore those cost reduction is probably somewhere between one quarter which will be very fast and then on the order of a year for something which is very large. Okay?

For the very large systems, they don't all come down in one big lump, right? They do come down in pieces as portions of the infrastructure can be taken down.

John Gamble

Hey, Gary, it's not lost on us that we got work to provide some visibility around this transformation. And our thinking is to enhance that visibility and how we are sharing kind of the old versus new with you as we get into 2020. So, that's on our to do list as we prepare our guidance for next year and how we will talk about the company in 2020 as this becomes increasingly meaningful part of our cost structure.

Gary Bisbee

Great. Thanks. And then just a quick follow-up. You mentioned higher royalty expense. I think you mentioned that in other quarter earlier this year. Things like the Urjanet partnership, revenue sharing with payroll providers to get their files and the work numbers.

Should we think of that strategy and those types of things as having sort of a meaningful or noticeable impact on the margin dynamic of the business looking forward? Or is that really just the timing of a couple of things along with all the other moving parts you are dealing with is why you've called it out recently? Thank you.

John Gamble

Sure. We called it out specifically in USIS because, some royalties from specific providers that we work with frequently went up in 2019. And so, it was a specific cost in USIS. But in general, you are going to see royalty cost continue to go up and they will probably go up as a percentage of revenue but not dramatically.

Mark Begor

Yes, it won't have a dramatic impact on our business. It's a – as you know, we own most of our data assets. We will continue to own most of our data assets. But increasingly we see real value in the incremental revenue and incremental margins we get through some of these relationships which as you point out, we will share some margin with them in a royalty scheme. But it's – for a long, long time, it's hard to even envision it's going to be a de minimus element in the business.

Gary Bisbee

Great. Thank you.

Operator

Moving next, we will got to Jeff Meuler with Baird. Please go ahead.

Jeff Meuler

Yes. Thank you. Maybe, Mark, some more details on Ignite be on your comments and that in the prepared remarks, but I guess, the bigger question is, competitors have made a lot of inroads with clients with trended data beyond mortgage in over the last two years it seems like they have made some inroads with their advanced analytics platforms, as well.

Just it seems to me like that might position them better for clients for core credit file business as well as cross-sell generally. But I would love your reaction to that view and maybe if you could kind of talk about the Ignite process or progress in that context. Thanks.

Mark Begor

Sure. Jeff, and you raise a great point. We believe that the decisioning systems in our case, Ignite are really critical capability and really an important element to have with our customers and that's why we are investing so heavily in Ignite and also our integrated

Ignite InterConnect platform, because we believe that today, Ignite has a market-leading capability embedded in Ignite as things like our patented NDTAI technology.

And we are having really good traction in the United States and around the globe of rolling out Ignite and embedding it with our customers. We believe we have a very competitive product and it's one that we are continuing to invest in to advance our lead and the capabilities that we have. I was with a customer yesterday actually here in Atlanta who is looking at doing an Ignite installation with us.

They don't have any of our competitors' products in their decisioning tool. And they are very attracted to what the Ignite capability will deliver. But it's really quite strategic to us and important to us.

Jeff Meuler

Okay. And then, the Twin records add just quickly, was that a large employer? Or was that some new partnership that's coming onboard?

Mark Begor

It's a combination of the two. It's one, we are – we had a large partnership that we added in the quarter and then we also continue to add a large individual employer. So it's a dual strategy as you know and the partnership strategy is one that we've put more focus on in the last couple of years.

But core to our strategy is going out the individual companies and we are obviously getting real scale there in that business which is driving hit rates with the non-farm payroll at a 165 million. There is still a long road for the EWS team to continue to add records which will be one of many levers to drive their top-line.

Jeff Meuler

Thank you.

Operator

Our next question will come from Bill Warmington with Wells Fargo. Please go ahead.

Bill Warmington

Good morning everyone. So I was going to ask for an update on the partnerships with FICO. How the pipeline is? Any deals closed? And we noted that you are – that you guys are going to be presenting at FICO World in a couple of weeks.

Mark Begor

Thanks, Bill. Yes, I neglected to talk about that this morning, probably should have – we were – we had our quarterly joint session with Will and his team. Will Lansing and his team at actually at FICO a couple of weeks ago. We've got great momentum on our combined cloud data decisions product that combines our Ignite, our data assets and their DMS platform and then we've got a number of other products rolling.

We've actually had our first customer win. We are – it's not – you wouldn't talk about one customer win, but again, that's momentum in that relationship and it's – the partnership that we are energized about and Will and I will be at FICO World. We are going to jointly give some updates on some of the newer new products that we are working on together.

We continue to see more opportunities to a partner and we are energized about that. And just shifting from FICO, you would add Urjanet and others we are working on. I think you – I hope you see it. In Equifax that's looking for ways to not only own things and acquire them like PayNet, but also to look for strategic relationships like FICO, like Urjanet and others where we can take advantage of Equifax's assets with someone else's and bring real value not only to us, but also to that partner. So, good progress with FICO Bill.

Bill Warmington

The follow-up question for you. On the myEquifax product, you mentioned 2 million customers or 2 million consumers, I just wanted to ask what's the critical mass you need to get to, to begin doing the cross-selling? And when should we start to think about seeing some revenue contribution from that?

Mark Begor

Yes, it's a great question. So, first off, getting from zero in December of 2018 to 2 million, we feel pretty good about and we are adding them – I don't know, 15,000 to 20,000 a week. They continue to come in. So there is a lot of consumer positives about having that relationship with Equifax and you know the team's plans in GCS are to begin some of that cross-sell effort as we are doing some pilots in the fourth quarter and that will continue into 2020 and really go into production mode in the first half of 2020.

And we just view this as another lever for GCS in their direct business to deliver products to our customers and expand the kind of products that we offer to U.S. consumers.

Bill Warmington

Okay. Well, thanks a lot and a shot out to Trevor to get well soon.

Mark Begor

Thanks, Bill.

Operator

Moving next, we'll go to Andrew Steinerman with JPMorgan.. Please go ahead.

Andrew Steinerman

Hi, Mark. A comment on your prepared remarks is, do you expect USIS to return to historic growth rates? This is the first time I remember you saying that we are going to get to historic organic revenue growth rates.

Do you think Equifax is now at a point where you could comment about the medium-term algorithm, the previous 6% to 8% organic revenue growth and maybe make a comment about current USIS visibility because that was one of the things you wanted to think about when we are introducing the organic.

Mark Begor

Yes, thanks, Andrew. I guess, from my perspective, I've been consistent since I joined April 18 months ago that it was my view and it's shared by the team here. It's not a matter of if, it was only when, not only USIS, but of course, Equifax, because of the impact the

USIS has in the overall enterprise would return to its historic growth rates.

I try to be consistent on that. There wasn't a new comment on my part today or wasn't intended to be one. I've been quite consistent about that. And as you also point out, we've also discussed that USIS is recovery, our confidence in that recovery, our confidence in that path back to the historic growth rates was one of the factors that John and I and the leadership team are watching for before we put a financial framework back in place and we are still in that mode.

As I mentioned a couple of minutes ago is one of the other sellside analysts were, from my perspective we're only three quarters in. You could pick how many quarters we are into USIS showing what they can and will do. 2018, they were in more defense mode. We are clearly back in offense and third quarter was a positive step forward.

We expect fourth quarter to also be a positive step forward. It's still hard for us to handicap how many more quarters we need before we are going to have the confidence that they are on the path back to their historic growth rates.

But my comments from a year ago April and what I try to be consistent since then is it's not a matter of if, it's only when and that's really driven by the differentiated data assets that the business has, the role it's had in the marketplace.

It's driven by the new team we have which is really energizing and it's also driven by the technology investments that we are making. We believe that this is going to take not only USIS, but Equifax to another level.

Andrew Steinerman

Thanks, Mark. Appreciate it.

Mark Begor

Thanks, Andrew.

Operator

Our next question will come from Brett Huff with Stephens. Please go ahead.

Brett Huff

Good morning, Mark and John.

Mark Begor

Good morning.

Brett Huff

Two questions. One, just to dig down a little bit into the USIS. I want to make sure that I am getting the comparisons right. I think that the 3% sort of ex-mortgage inorganic compares to a 1% last quarter. And so, it's a nice acceleration. Is that the right way to think about that?

Mark Begor

It's up over 200 basis points, yes.

Brett Huff

Okay, great. And just digging down in that a little bit, obviously you had great strength both in the online and in the FMS and I know FMS kind of goes up and down and furthermore project-driven. So, I wanted to dig in and see that 200 basis points acceleration.

How did that kind of shake out in terms of – was it more of the online stuff, which I think we think of as more kind of sustainable or long-term versus the FMS. Just want to understand kind of how you guys thought about that sort of quality if you will in that acceleration?

Mark Begor

Yes, I don't think we broke down that detail between both, but what we did is we saw growth obviously in both. So, I mean, and that was very important to us and continuing to be able to continue to see that that growth rate improve across those business both online and batch.

It's important to us, but in the third quarter we certainly saw online non-mortgage growth as well. And as you point out, Brett, that's very important as is FMS. Our project or our financial marketing business is also important. But we see positives in really all corners of USIS as they continue to march forward.

Brett Huff

Thanks. And just the follow-up is, it was really helpful John, when you talked about sort of the chunky things that can happen with expense benefits from decommissioning big databases and exchanges. Is there a way to give us, are there five big ones and ten small ones and how many are we done with? And have we decommissioned already?

Can you give us just rough kind of macro view on that, so we can – as we start to try and phase in the cost savings of the deduplification, if you will? Can you just give us any thoughts on how to think about that?

John Gamble

So, we certainly will, but I think we are going to have to ask you to wait until we give guidance for next year, right. And I think, and as we get to that point, a lot of transitions will be well underway and our timing will be very specific. We will be able to give you a lot better detail on what that might look like.

Mark Begor

And Brett, let me add to that. Look, as I mentioned a few minutes ago, we know we have to give you more visibility on that than we plan to. Part of us waiting to do it as a part of our 2020 guidance is that's when the rubber is really going to hit the road, meaning, we are going to have a lot of these migrations and a lot more moving to the cloud and we'll have more with the duplicate cost.

Our intention is to make sure that that's crystal clear for you both n when the benefits should be kicking in as well as when the costs are being incurred. And we also are learning as we go and getting more knowledge about how quickly customers will move and how these migrations will take place.

John Gamble

And we'll try to cover broadly how margins will move. So we had earlier questions on royalties. We'll discuss how they are growing as a percent of revenue to Brett, get people detail on how to think about those things.

Brett Huff

Great. Fair enough. Thanks for the detail guys. I appreciate it.

Operator

Moving next to Andrew Nicholas with William Blair. Please go ahead.

Andrew Nicholas

Hi, good morning. I believe you mentioned a comment about the press around the settlement news impacting your Consumer segment a bit more than you had expected in the quarter. I am just wondering if that pressure has abated at all thus far in Q4 and if not, how long would you expect that to be a headwind.

Mark Begor

Yes, it was a small headwind, Andrew, and we actually made a proactive decision. We thought there would be more consumer noise, if you will, around the settlement that would result in our paid search efforts being less affected. So we made a decision around that timeframe to dial back our paid search, which of course when you do that results in acquiring less customers.

And we since started that up quite quickly, because it really didn't had the impact we anticipated. So we just wanted to spike out that there was a small bump from that. It wasn't significant, but it was, it did had an impact on GCS.

Andrew Nicholas

Got it. Thank you. And then, one more from me, obviously Verification growth was really strong. 29% is a great number. I know mortgage was a tailwind and you talked a little bit about partnerships. But just wondering if there is anything else to call out on the strengths and maybe a little bit of guidance or little bit of color on how we should be thinking about growth rates on a go-forward basis?

John Gamble

Yes, so I think in the script, we basically indicated every segment grew very nicely. Right, so Mark listed the segments that grew very, very well. We had…

Mark Begor

Let me add to record growth. Andrew, as you might imagine growing records is a really important lever for that business. It drives hit rates immediately assumes the records at our database and of course, the record growth is another lever there that benefited strongly in the third quarter. We expect that to benefit going into fourth and in the future.

John Gamble

You should keep in mind, 29% for Verification Services is a very high number, right. So, expecting things to continue like that is probably a little high. But they had very good performance and we expect very good performance in the fourth quarter.

Andrew Nicholas

Great. Thank you.

Operator

Our next question will come from David Togut with Evercore ISI. Please go ahead.

David Togut

Thank you. As you look to the major macro drivers of USIS, mortgage, auto, credit cards, what are your thoughts about the sustainability of current trends, at least at a macro level into 2020, especially if 10 year treasury yields stays as low as it is, 1.7%, 1.8%?

Mark Begor

Yes, this is outside of our skill sets. I can give you our perspectives. When you think about kind of the macros, it's hard for us to predict interest rates, but the mortgage activity in the last 90 days, we expect to stay strong in the fourth quarter. It's hard to forecast going into 2020, we will do that as we get closer. Outside of mortgage, which obviously has had a big bump with interest rates coming down and mortgage rates coming down.

The core consumer finance market is very strong. Whether it's credit cards or auto, that's still very strong. You've got a number of macros in there that are helpful. Interest rates, as you point out are one, employment and unemployment being lower another one, people are working. They got discretionary income. Those are all quite positive.

So, our discussions with our customers, they are still focused on growth in originations. There is also a dialogue I talked about in the last quarter of getting ready for when that slowdown comes and so we are having dialogues around kind of back book management and some of the great tools that we have to help with that. But we are expecting the economy to be kind of where it is now going into 2020.

We don't see anything different. It's hard to forecast with some of the political uncertainty here and around the globe how that's going to impact with the core consumer is quite strong.

David Togut

Appreciate that. Just as a sort of a follow-up on macro, Australia was such a strong growth market for Equifax for a while, post the Veda acquisition. I am just curious what your view is on the credit market in Australia? When you think that might turn and to the extent it doesn't, are there any actions you intend to take there just from a pure cost management standpoint?

Mark Begor

Yes, on the market, there was a slowdown in Australia started in the third quarter last year. We felt we saw some signs of positive after the election in the second quarter. That hasn't flowed through as much as we thought. But as we pointed out in our comments earlier, we are starting to see some online volume in both consumer and commercial that's more positive in the third than it was in the second.

So, we are watching that. Actions we are taking, we did some cost actions in the first half of the year. We think we got the cost right-sized. Most importantly, we got a new leader there. One of our best international leaders who was running our Canadian business, Lisa Nelson, is on the ground there.

There she started in late August and she took Canada from a slow growth business into the kind of high-single-digits and we've got great confidence in her leadership capabilities and her focus on customers and NPIs and growth.

So, that was a deliberate step on our part to put a new leader on the ground there and she is one of our best. So we are optimistic about that.

David Togut

Thank you. Appreciate all the insights.

Mark Begor

Thanks.

Operator

And we will take our next question from George Tong with Goldman Sachs. Go ahead sir.

George Tong

Hi, thanks. Good morning. I wanted to dive deeper into your tech savings. You mentioned 15% in expected savings in the technology portion of cost of goods sold and 20% to 25% savings in development capital and expense. Can you quantify how much of cost of goods sold is technology spend? And talk about how much of the development savings will be CapEx versus OpEx?

Mark Begor

Go ahead, John.

John Gamble

Yes, so, on to the technology portion of COGS, we said it's on the order of half to slightly below half, right? So, that's generally what we've indicated. And in terms of development expense and capital, it's really difficult to split those for you specifically.

So, I think we are going to have to hold off and we'll give you some more perspective on that as we get into 2020. But in general, what we are saying is the spending we are making on new products and new development should go down by 25%. The bulk of it is capital. But the exact split is not something we are going to – what we can break out right now.

George Tong

Got it. That's helpful. Your EBITDA margins expanded for the first time in two years this quarter. Would you see that going forward, we should continue to see margin expansion and what are the two or three factors that could potentially cause EBITDA margins to return to contraction?

John Gamble

Well, so, in terms of fourth quarter, we guided we expected to see EBITDA margins to go up over 35%, which would be a substantial increase from 2018, right. So that's up on the order of 200 basis points. So, again, I think what's driving the improvement in margins is the return to growth of the business and the improvements we are seeing obviously in USIS, the tremendous performance in Workforce Solutions and which is driving their margins higher.

But then also, we are seeing some improved margins in international, much of that driven by cost actions as well as some return to growth. So, what we are focused on is how do we continue to drive those margins higher and that's what we are going to be spending our time.

Mark Begor

And George, I would add, I think you know this, we talked a couple times this morning already about it. You and I talked in prior sessions that technology investments we are making are all focused on driving our top-line and our cost structure. You already talked about the operating cost benefits we have. So, those are all going to be positive to our margins in the future, which is why are making these investments.

George Tong

Very helpful. Thank you.

Mark Begor

Thanks.

Operator

And we will take our next question from Shlomo Rosenbaum with Stifel. Please go ahead. Caller, please check your mute function.

Shlomo Rosenbaum

Can you hear me now?

Mark Begor

Yes, we got you.

Shlomo Rosenbaum

Okay. Sorry. The last time the company went through a big change in interest rates as mortgages. The company split out the mortgage-related growth versus the non-mortgage related growth and given that we are trying to track the company as a whole and how the growth is doing, are you able to do on a total company basis, just saying, hey, if I strip out mortgage over the last couple of quarters or three, this has been the growth of the business, so that we can just kind of get a beat at what’s going on really ex the mortgage business and where we track that?

John Gamble

So, Shlomo, we try to do that in the individual businesses, so, in the commentary today we tried to lay out what the growth, what the non-mortgage growth rates look like in USIS. What they look like in EWS. In terms of supplemental reporting, yes, I don't think we are headed in that direction, but we are trying to provide some visibility in terms of the impact of the mortgage market changes had us. For example, we gave the total dollar value impact of the growth in the mortgage market versus our expectations, right, which we said was about $25 million. So…

John Gamble

When we talk about USIS and EWS, both with and without the mortgage impact.

Shlomo Rosenbaum

So, if I – I am just saying, like if I took out mortgage, would I say growth as a whole company was more like 5%, like is that the right way to look at it up from 2% or 3%? What's the right way to look at it?

John Gamble

Understand the question, we don't at this time have an intention to go back to try to create separate reporting publicly for mortgage and non-mortgage. So, I think we provided some pretty good detail in terms to understand the impact of the mortgage market on the major businesses. But – and I think that's probably the exam we are going to go through now.

Shlomo Rosenbaum

Okay. And then, Mark, can you just talk a little bit more about what's going on in the UK? Your major competitor that also has a business in the UK that posted double-digit organic growth despite what's going on with Brexit. Is there a mix issue going on over there? Is there a market shift issue going on over there? Is it you don't compete in the same areas. Can you just give us a little background on that?

Mark Begor

Yes, their business – and again, I don't spend a lot of time on their business. I just focus on mine. But we saw their numbers and as you probably know, they operate in some different markets that we do. We've got the debt management business, they don't. We both compete in the core credit business. They've got a consumer business that's different than ours.

So, yes, there are different businesses there. I don't know enough about their financial results. But I know about mine. I was there two weeks ago meeting with some big customers and there is no question what we are seeing is big customers delaying new product kind of decisions around Brexit uncertainty. That started in the second quarter and continued into the third and from what I saw two weeks ago, it's going to be here in the fourth.

That's just a reality. There is no change in competitive. We are not winning less and losing more or anything like that. It's just that decisions around new products and as you know, that's one of the fuels for growth in our business and it's not only in the UK and other markets. So, it's nothing more than that from my perspective.

Shlomo Rosenbaum

Okay. Great. And then, if I could just squeeze in one last one. Are you – do you have any tangible areas where you've made small migrations and you are really seeing new product developments where you are able to get something out really quickly? I mean, are there – is there anything where you have something in hand where you are able to say, yes, we've made this and now we've come across some stuff if anybody will do in a much accelerated pace.

Mark Begor

Well, I spiked out intentionally, one that, we moved our U.S. credit file to the new Google Cloud data fabric in the quarter. And during the quarter, we rolled out a new product that we couldn't do before and our competitors, from what we understand can't do today of a virtual streaming of information from that data exchange and you know the speed of the data historically was done in overnight runs or every three hours or with certain limitations and how quickly it could be delivered out of the file is now done in hundreds of thousands of data records every second.

So, it's just the velocity and the latency of that is something that we anticipated. And what we found is that there is a customer demand for that and as I said in the call, we've got a customer live with this new product from the cloud exchange that couldn't have been done before.

And this is one customer and we've got a pipeline for this one new product of delivering virtually streaming alerts and inquiries and data to the customer that there is a pipeline of a handful of other customers who want to do the same thing.

So, that's a one example of what we think will be a whole bunch more, which is as you know, one of the reasons we are making this significant investments in our technology, because we think it's going to make us differentiated in the marketplace.

Shlomo Rosenbaum

Got it. That's very helpful. Thank you very much.

Operator

And this does conclude today's question and answer session. I would like to turn the call back over to John Gamble for any additional or closing remarks.

John Gamble

That's it. Thanks everyone for participating and we look forward to speaking with you during the quarter.

Operator

And this does conclude today's call. Thank you for your participation. You may now disconnect.