

**Street Takeaways - Equifax cybersecurity breach**  
**Tuesday, September 12, 2017 08:52:51 PM (GMT)**

- **Overview:**

- Shares are trading down ~18.8% since the company announced a security breach on 7-Sep after the close. The company reported that criminals exploited a US website application vulnerability to gain access, with the information accessed including names, Social Security numbers, birth dates, addresses and in some instances, drivers license numbers. The unauthorized access occurred from mid-May through July '17 and potentially affects up to 143M Americans.
- Discussion in the days since the announcement has been mixed. Broadly, the breach is of course viewed as a negative for the company, particularly in the near term. Expectations of the impact varied, as some believe it's difficult to quantify at this time while others projected the financial cost. Stifel targeted \$300-325M, Deutsche Bank projected \$300-400M and Atlantic Equities projected "low to mid-hundred millions" in costs. Some also touched on the likely negative reputational impact for the company. Longer term, however, several analysts pointed to the possibility of this being a buying opportunity for an otherwise-solid company that will ultimately resolve this issue.
- Sell-side sentiment remains positive on the stock, despite the news late last week. A quick look shows 76% of firms keeping Buy-equivalent ratings. While several analysts lowered price target since the announcement, average target of \$148.64 represents a 28.2% premium to current levels.

- **Analyst Commentary:**

- **Stifel** analyst Shlomo Rosenbaum (8-Sep)
  - Believes that the breach will likely cost the company materially and costs could drag on for a number of years
  - Notes that TGT and HD cases imply potential for \$300-325M in costs, irrespective of near-term impact on revenue
  - Views longer-term reputational impact and to what extent this will affect existing and future customer relationships is still unclear
  - Notes that management selling a few days after discovery looks bad, though extent of breach likely not known at that time
  - Removes EFX from the "Select List", given the opaqueness of the situation but notes clearly Stifel and consensus estimates for 2017 and 2018 are "just too high"
- **Atlantic Equities** analyst Kunaal Malde - lowers price target (12-Sep)
  - Views the data breach as an opportunity for long-term investors to enter the stock at its lowest relative multiple in seven years, while also acknowledging a near-term overhang
  - Expects limited impact to core USIS business but notes likely disruption to the consumer business, believing the most significant disruption will be to the lower-margin direct-to-consumer US business. Models half of US consumer direct revenue falling away
  - Believes the costs appear manageable, expecting costs to reach low to mid-hundred millions and noting that the company delivered ~620M in free cash flow in FY16
  - Citing the combination of a slight impact to USIS and a disruption to consumer segment, lowers CY18 EPS by ~4%
  - Lowers price target to \$140 from \$165, rating is overweight
- **Goldman Sachs** analyst Gabriela Borges (10-Sep)
  - Believes the breach stands out not only because of the number of consumers impacted but because of the high degree of sensitivity of data exposed
- **RBC** analyst Gary Bisbee
  - Notes that this will likely cost the company both in terms of expenses to remediate the situation and also reputation
  - Notes that while the company has not quantified the potential costs, it is worth noting that they carry significant cybersecurity, crime and general liability insurance and this, will likely have a portion of these costs covered by insurance
  - As for regulatory and/or reputation issues, views these as difficult to forecast but believes there will likely be the "normal political outrage" and hearings, at a minimum

- Notes that while the right approach to the stock may be continuing to recommend buying on weakness, there remains significant uncertainty into the costs and potential repercussions of the breach; sees few short-term catalysts to drive a rebound in shares but continues to believe in the quality of the management team and business model
    - Rating is outperform
  - **Piper** analyst Andrew Nowinski (11-Sep)
    - Believes the breach brings into question the credibility of using EFX credit monitoring services over other competing services and, with pricing largely in line with LifeLock, believes the breach will result in significant share losses going forward for EFX
  - **Deutsche Bank** analyst (7-Sep)
    - Notes that the situation is fluid and extremely difficult to quantify but believe impact could be in the range of \$300-400M, given costs for credit monitoring, regulatory fine and penalties
    - Believes the GPN breach in March '12 offers a guide to the potential scope and impact for EFX business and stock, noting the breach impacted 1.5M card numbers and GPN was fined \$94; regarding the stock, notes GPN traded down 9% the day of the announcement and down 13% one week post breach announcement
- **Readthroughs:**
  - **SYMC**
    - +10.2% since the announcement on 7-Sep
    - RW Baird
      - Notes that breach is driving strength, highlighting LifeLock
    - Goldman Sachs analyst Gabriela Borges
      - Notes that the impact to LifeLock from this breach could be bigger than prior incidents, given more consumers impacted/engaged and longer-term market share gain potential from any reputation damage to EFX/TrustedID
      - Notes that LifeLock gross customer adds accelerated 38% y/y in Q1'14 after TGT breach and 22% in Q1'15 after Anthem breach
    - Piper analyst Andrew Nowinski
      - Notes that LifeLock business should see a benefit
    - Morgan Stanley analyst Melissa Franchi
      - Notes company as a "major beneficiary" from breach
      - Believes increased awareness of digital identity protection will likely drive demand for LifeLock business
      - Sees significant upsell opportunity with just 4.7M subscribers at an average ASP of \$150/year, projecting "at least" mid-single digit growth in consumer business in CY18
  - **FEYE**
    - +4.7% since the announcement on 7-Sep
    - Goldman Sachs analyst Gabriela Borges
      - Notes that the company has been hired to help with EFX remediation and while one contract is unlikely to move the needle, FEYE continues to maintain a best-in-class reputation for incident response services
    - Piper analyst Andrew Nowinski
      - Notes that company's Mandiant incident response team has been contracted to investigate and clean up the breach, which should be a positive as incident response engagement typically results in product sales afterward
    - Morgan Stanley analyst Melissa Franchi
      - Notes company as a key beneficiary from breach
      - Believes that breach reinforces previous expectation of stabilization in fundamentals in CY18 on the back of better refresh/renewals as well as some optionality around new product adoption
      - Notes that Mandiant was involved with forensics and remediation of breach and as a result, prior model of 5% growth in services revenue in CY18 could prove conservative
  - **PFPT**
    - (1.8%) since the announcement on 7-Sep
    - Morgan Stanley analyst Melissa Franchi
      - Notes company as a "key beneficiary" from breach
    - Piper analyst Andrew Nowinski

- Notes that EFX breach likely started via an email containing a malicious link or attachment and PFPT is one of the only email security solutions that can detect malicious links and attachments
- QLYS
  - +3.0% since the announcement on 7-Sep
  - Morgan Stanley analyst Melissa Franchi
    - Notes company as a "key beneficiary" from breach

**Industries:** Business Services

**Primary Identifiers:** EFX-US

**Related Identifiers:** EFX-US

**Subjects:** Street Takeaways, Street Takeaways - Other

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