



EQUIFAX, INC (NYSE: EFX)

Summary

My recommendation is to go long shares of EFX, on the basis that the company has shown a commitment to increasing margins along with the relative outperformance of the mortgage market and its underestimated rebound

Price Target: \$304.80

Time Target: 3 Years

Expect revenues to grow 9.72% CAGR over the next 5 years and
ADJ. EBITDA margins to expand by ~570 bps

1

- **Strong non-mortgage growth and new products in workforce solutions will offset the depressed mortgage market**
- Equifax revenues have consistently outperformed the underlying mortgage market over recent years.

2

- **Increasing margins and shifting more than half of revenue to workforce solutions**
- Attainable goal in 3-5 years of \$7B top line revenue with 39% Adjusted EBITDA margins
- Management focused on reducing costs

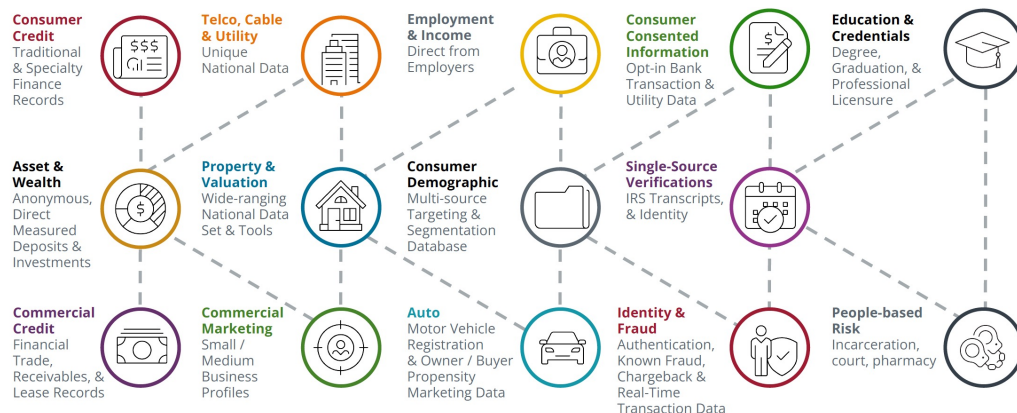
3

- **The rebound of the mortgage market is underestimated**
- Realistic path towards 5-6% rates in the next 3-5 years and a return to pre-pandemic average
- 2015-19 levels targeted by 2028

EFX Overview

Business Overview

- One of the three major credit bureaus
- Main products are credit information and verifications
- Diverse blend of data, analytics, and technology.
- Applying for a job, mortgage, student loan, auto.



Snapshot

- **Founded:** 1899
- **Employees:** 14K
- **TTM Revenue:** \$2.264B
- **TTM Adj. EBITDA:** \$1.618B
- **Market Cap:** \$26.263B
- **EV:** \$31.638B (18.6x Adj. TTM EBITDA)
- **Stock Price (as of 11/28):** \$213.1
- **52-Week Range:** \$159.95 – \$240.35
- **Next Earnings Date:** 02/07/2024

2022 Segment Overview

\$M	WORKFORCE SOLUTIONS	%	US INFORMATION SYSTEMS	%	INTERNATIONAL	%
Revenue	\$2325.4	100%	\$1657.7	100%	\$1139.1	100%
Adj. EBITDA	\$1193.5	51.3%	\$609.7	36.8%	\$292.6	25.7%
Operating Income	\$1006	43.3%	\$402.1	24.3%	\$147	12.9%

Company Segments

Workforce Solutions

Verification Services

- VOI
- VOE
- Education history
- Criminal history
- Healthcare licensure

Employer Services

- Tax
- HR
- I-9
- W-9
- W-4

The Work Number (TWN) is the most popular product

- Income and Employment Verification
- Over 163M employee records (Largest in the industry)
- 2.8M Contributors (50% Direct/50% Partner)

Customers

Mortgage – 33%

Government – 15%

Talent Solutions – 14%

U.S. Information Systems

Online Information Solutions

- Consumer Information (Credit Reports)
- Identity Verification
- Fraud Management

Mortgage Solutions

- Tri-Merge Reports
- Early Warning Services

Financial Marketing Services

- Portfolio Management
- Analytical Services
- Marketing Services

International

Asia-Pacific

Europe

Latin America

Canada



Investment Opportunity

*“Although the unprecedented decline in the U.S. mortgage market in 2022 and 2023, pushes out our prior midterm goal of **\$7 billion in revenue and 39% EBITDA margins** to beyond 2025, it does not change our focus on expanding our margins toward our 39% goal as we drive revenue higher.” – John W. Gamble, CFO Equifax '23 Q3 Earnings Call*

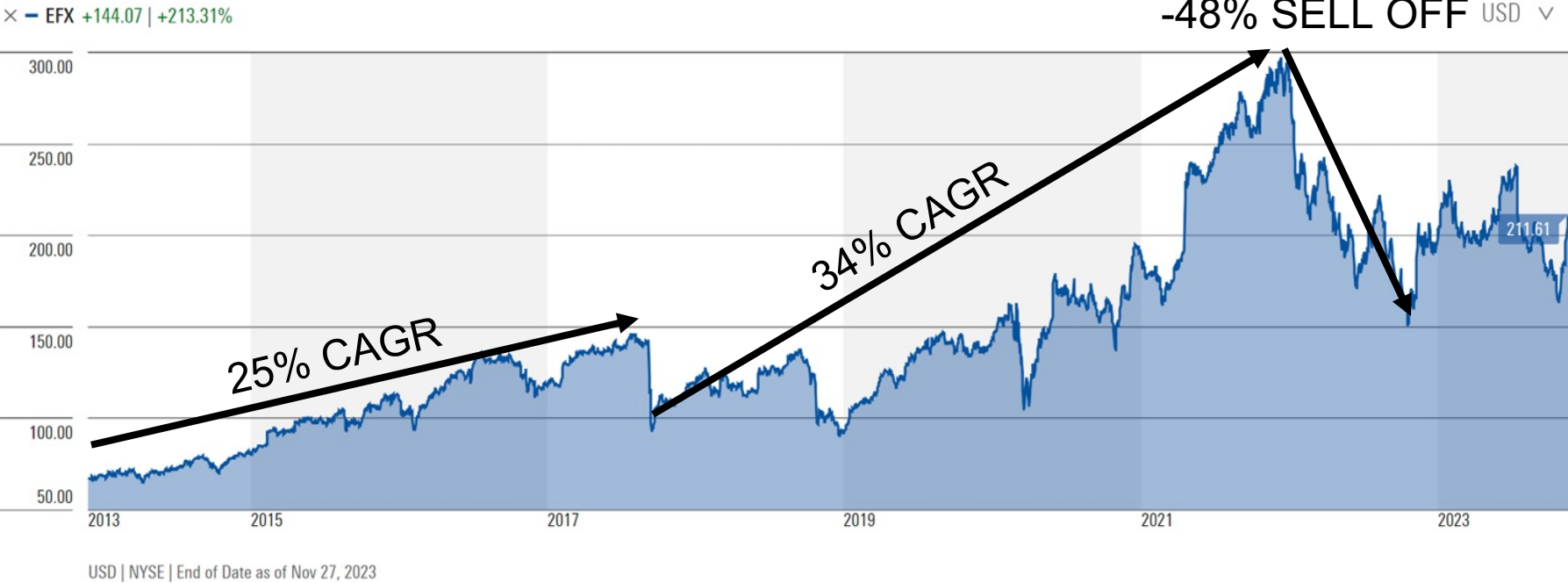
	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E
Total Revenue	3412.1	3507.6	4127.5	4923.9	5122.2	5250.3	5778.7	6383.5	7057.8	7720.2	8350.1
% yoy		2.80%	17.67%	19.29%	4.03%	2.50%	10.06%	10.46%	10.56%	9.39%	8.16%
% 2 year			20.97%	40.38%	24.10%	6.63%	12.82%	21.58%	22.13%	20.94%	18.31%
% 3 year				44.31%	46.03%	27.20%	17.36%	24.62%	34.43%	33.60%	30.81%
OPERATING INCOME	448.00	-335.50	676.60	1138.00	1056.00	943.3	1106.01	1269.14	1455.81	1643.65	1826.06
OPERATING MARGIN	13.1%	-9.6%	16.4%	23.1%	20.6%	18.0%	19.1%	19.9%	20.6%	21.3%	21.9%
bps yoy%		-2269.5	2595.7	671.9	-249.6	-264.9	117.2	74.2	74.5	66.3	57.8
ADJUSTED EBITDA	1150.0	1177.6	1494.7	1669.8	1721.6	1700.1	2012.6	2279.9	2583.1	2888.5	3186.6
EBITDA MARGIN	33.7%	33.6%	36.2%	33.9%	33.6%	32.4%	34.8%	35.7%	36.6%	37.4%	38.2%
bps yoy%			264.0	-230.1	-30.2	-123.0	244.8	88.7	88.3	81.5	74.8

LTFF Revenue Growth



Long Term Financial Framework	New EFX
Organic revenue growth	7-10%
M&A contribution	1-2%
Total growth	8-12%
EBITDA% margin improvement	+50 bps
Cash EPS growth	12-16%
Dividend yield	~1%
Annual shareholder return	13-18%

10 YEAR PRICE HISTORY



Thesis 1: Strong non-mortgage organic growth is sustaining revenues in EWS

Resistance to poor mortgage market conditions

Consistent outperformance

Market dominance with Verification Services

TWN is a market leader and continues to grow

11% EWS non-mortgage growth

Government +23% Q3

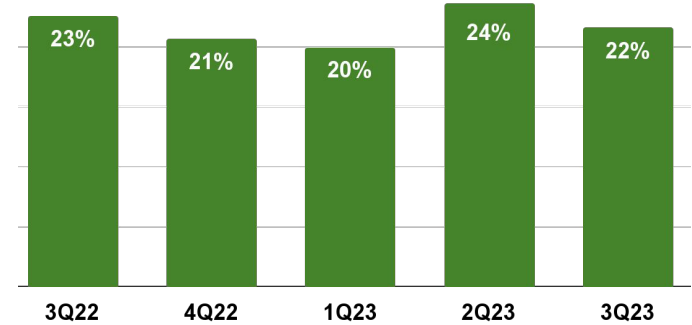
Large TAM

Employer revenue up +13% total, +9% organic

I9 / Onboarding +25% / +17% Organic

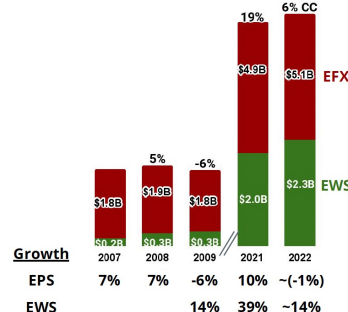
Long-Term Growth Framework of 13-15%

Continued Mortgage Outperformance

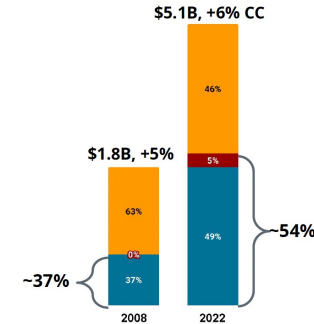


Mortgage -15%, with 22 pts of mortgage outperformance

EFX / EWS Revenue Growth



Recession Resilient



Recession Growth Levers

1. EWS growth... records, penetration, product, Employer, Talent, Government, UC
2. Cloud benefits... cost savings and share gains
3. NPI growth... cloud leverage, 13% Vitality Index
4. M&A... synergies kicking in

Recession-impacted Counter-cyclical Recession-resistant

Thesis 2: Management remains focused on reducing margins

Path to 39%

50% of Revenue from EWS

Workforce solutions is the highest margin segment at 50%

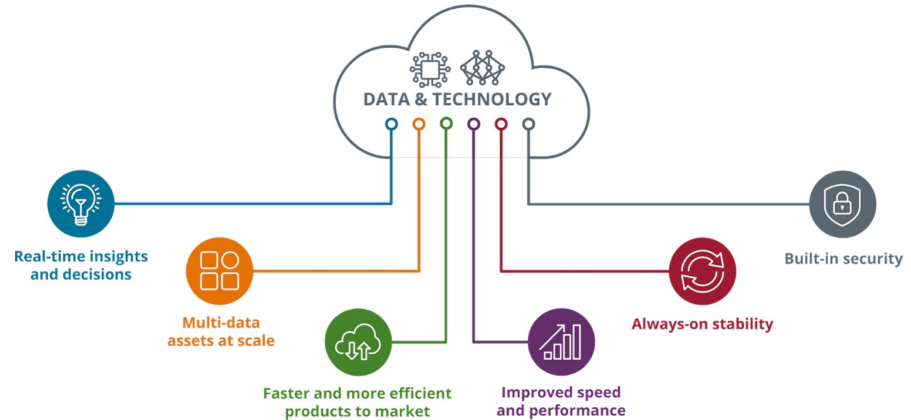
Management predicts 50 bps yoy margin growth

Move to the cloud has made the segment more efficient

\$210M spending reduction in 2023 and \$275M reduction in 2024

Data breaches and lawsuits are largely behind the company

Equifax is now an industry leader in data security



Thesis 3: Rebound in the mortgage industry is underestimated

- Management has made these growth assumptions with poor market conditions in mind
- They predict levels to return to 2015-19 averages in the next 3-5 years
- There is a realistic path to that recovery

Rate hikes have likely stopped

However still “higher for longer”

Won't get back down to 4% but 5-6% rates in 2-3 years is achievable

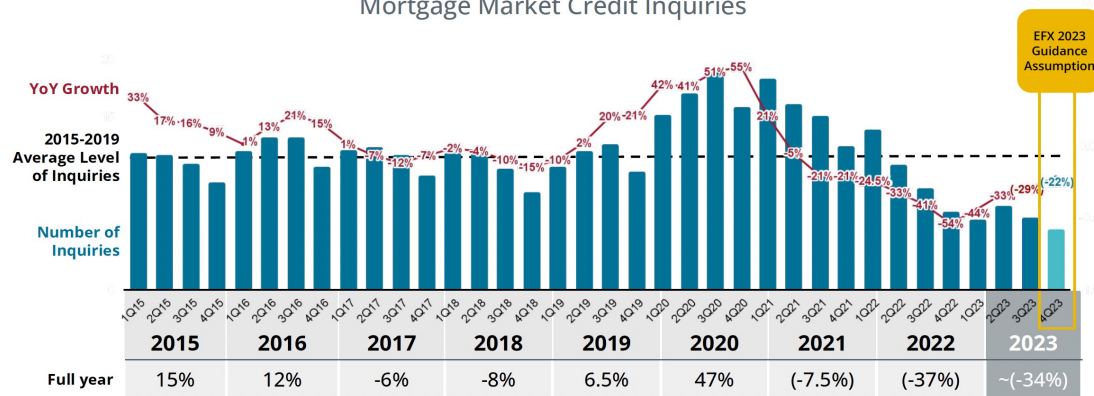
Spread to 10 Year Treasury will regress to mean

Current spread is 3%, mean over last 25 years has been 1.85%

Spread has increased due to inverted yield curve and prepayment risk

Rates at that level would support a recovery to pre-pandemic averages

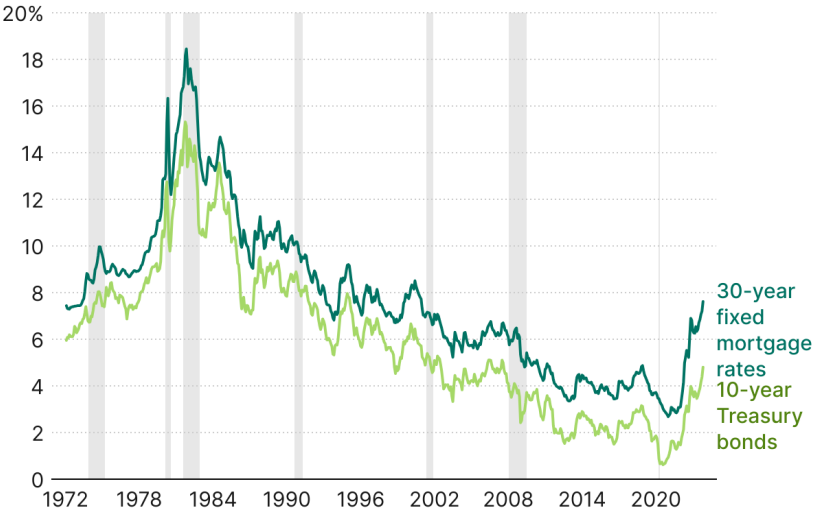
Mortgage Market Credit Inquiries



4Q23 Mortgage inquiries expected to be over 50% below historical levels

YRQTR	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
New Originations (\$Billions)																
Number of New Accounts	2,449,438	1,255,008	1,493,672	1,605,763	1,321,565	1,161,278	1,374,526	1,624,885	2,098,361	1,021,744	510,872	434,241	626,112	1,113,089	1,252,225	1,391,361
yoy		-48.76%	19.02%	7.50%	-17.70%	-12.13%	18.36%	18.21%	29.14%	-51.31%	-50.00%	-15.00%	44.19%	77.78%	12.50%	11.11%
AVERAGE 2015-2019																
	1,391,361															

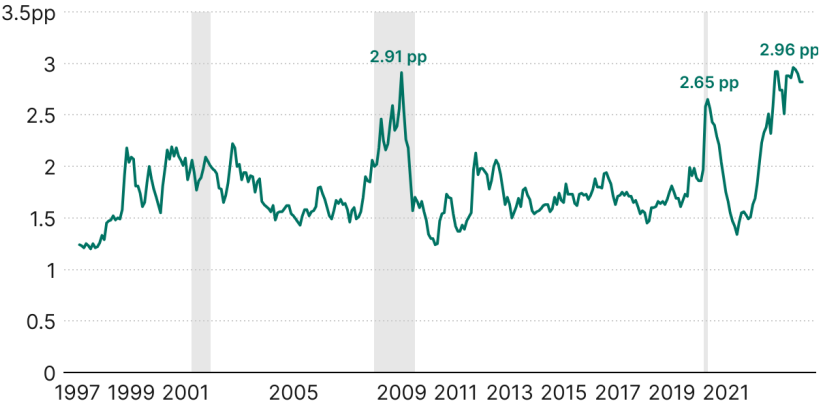
Figure 1: 30-year fixed mortgage rates and 10-year Treasury bond rates, January 1972–October 2023



Source: Bloomberg LP; Haver Analytics
Note: Gray shaded areas indicate recession periods.



Figure 2: Spread between 30-year fixed mortgage rates and 10-year Treasury bond rates, January 1997–October 2023



Source: Bloomberg LP; Haver Analytics
Note: Gray shaded areas indicate recession periods. The spread between 30-year fixed mortgage rates and 10-year Treasury bond rates peaked at 2.91 percentage points during the housing crisis and 2.65 during the COVID-19 pandemic. The spread rose to 2.92 in October 2022, peaked at 2.96 in June 2023, and has remained high.



MBA Mortgage Finance Forecast

November 17, 2023

	2023				2024				2025							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	2025	2026
Housing Measures																
Housing Starts (SAAR, Thous)	1,385	1,450	1,359	1,375	1,358	1,342	1,351	1,378	1,407	1,447	1,468	1,482	1,392	1,357	1,451	1,440
Single-Family	834	930	961	983	992	1,008	1,030	1,068	1,105	1,131	1,156	1,174	927	1,025	1,142	1,135
Two or More	552	520	398	392	366	334	321	310	302	316	312	308	465	333	310	305
Home Sales (SAAR, Thous)																
Total Existing Homes	4,327	4,250	4,023	4,043	4,149	4,301	4,480	4,655	4,788	4,824	4,920	4,904	4,161	4,397	4,859	4,935
New Homes	638	691	724	732	743	749	763	762	783	795	802	810	696	754	797	796
FHFA US House Price Index (YOY %Change)	4.6	3.1	5.0	5.7	5.7	5.3	4.7	4.1	3.6	3.4	3.2	3.3	5.7	4.1	3.3	3.9
Median Price of Total Existing Homes (Thous \$)	366.7	397.5	401.4	397.1	398.0	398.1	394.1	393.8	394.5	394.9	395.4	396.1	390.7	396.0	395.1	394.3
Median Price of New Homes (Thous \$)	434.8	418.7	428.9	425.8	428.6	432.2	431.9	432.8	434.7	437.2	439.5	441.8	427.0	431.4	438.3	432.0
Interest Rates																
30-Year Fixed Rate Mortgage (%)	6.4	6.5	7.0	7.5	7.1	6.6	6.3	6.1	5.9	5.8	5.6	5.5	7.5	6.1	5.5	5.4
10-Year Treasury Yield (%)	3.6	3.6	4.2	4.6	4.3	4.0	3.8	3.7	3.7	3.7	3.6	3.6	4.6	3.7	3.6	3.6
Mortgage Originations																
Total 1- to 4-Family (Bil \$)	333	463	444	399	429	525	543	523	501	619	620	598	1,639	2,020	2,339	2,436
Purchase	267	371	363	324	330	410	408	382	346	461	456	436	1,325	1,530	1,699	1,782
Refinance	66	92	81	75	99	116	135	140	155	158	164	162	314	490	639	654
Refinance Share (%)	20	20	18	19	23	22	25	27	31	26	27	27	19	24	27	27
FHA Originations (Bil \$)													197	221	233	224
Total 1- to 4-Family (000s loans)	895	1,239	1,165	1,034	1,107	1,335	1,372	1,315	1,260	1,526	1,519	1,457	4,333	5,129	5,761	5,797
Purchase	686	948	913	804	807	989	974	904	811	1,072	1,050	997	3,350	3,674	3,930	3,986
Refinance	210	291	252	230	300	346	399	411	448	454	469	460	983	1,455	1,831	1,811
Refinance Share (%)	23	23	22	22	27	26	29	31	36	30	31	32	23	28	32	31
Mortgage Debt Outstanding																
1- to 4-Family (Bil \$)	13,671	13,767	13,822	13,879	13,931	13,988	14,050	14,117	14,190	14,264	14,343	14,425	13,879	14,117	14,690	14,783

Notes:
As of the August 2023 forecast, 2022 origination volume was revised based on the 2022 Home Mortgage Disclosure Act data.
Total 1-to-4-family originations and refinance share are MBA estimates. These exclude second mortgages and home equity loans.
Mortgage rate forecast is based on Freddie Mac's 30-Yr fixed rate which is based on predominantly home purchase transactions.
The 10-Year Treasury Yield and 30-Yr mortgage rate are the average for the quarter, but annual columns show Q4 values.
The FHFA US House Price Index is the forecasted year over year percent change of the FHFA Purchase-Only House Price Index.
Copyright 2023 Mortgage Bankers Association. All rights reserved.
THE HISTORICAL DATA AND PROJECTIONS ARE PROVIDED "AS IS" WITH NO WARRANTIES OF ANY KIND.

REVENUE/MARGINS BUILD

	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E
Total Workforce Solutions	826.8	949.7	1437.9	2035.4	2325.4	2305.3	2674.1	3048.5	3475.3	3892.3	4281.5
OPERATING INCOME	332.7	389.7	700.7	1000.7	1006	963.9	1129.1	1299.7	1496.0	1691.5	1878.3
OPERATING MARGIN	40.2%	41.0%	48.7%	49.2%	43.3%	41.8%	42.2%	42.6%	43.0%	43.5%	43.9%
bps yoy%		79.5	769.7	43.4	-590.3	-144.8	41.1	41.1	41.1	41.1	41.1
ADJUSTED EBITDA	398.2	461.2	800.4	1110.40	1193.50	1171.8	1372.69	1580.11	1818.70	2056.41	2283.45
EBITDA MARGIN	48.2%	48.6%	55.7%	54.6%	51.3%	50.8%	51.3%	51.8%	52.3%	52.8%	53.3%
bps yoy%	0.1%	40.1	710.2	-111.0	-323.0	-49.2	50.0	50.0	50.0	50.0	50.0
yoy %		14.9%	51.4%	41.6%	14.2%	-0.9%	16%	14%	14%	12%	10%
% of total revenue	24.2%	27.1%	34.8%	41.3%	45.4%	43.9%	46.3%	47.8%	49.2%	50.4%	51.3%
Total U.S. Information Solutions	1247.3	1277.4	1482.5	1786.7	1657.7	1714.9	1800.7	1926.7	2061.6	2185.3	2294.6
OPERATING INCOME	441.8	423.3	463.9	551.8	402.1	360.0	384.0	416.7	452.2	486.0	517.3
OPERATING MARGIN	35.4%	33.1%	31.3%	30.9%	24.3%	21.0%	21.3%	21.6%	21.9%	22.2%	22.5%
bps yoy%		-228.3	-184.6	-40.8	-662.7	-326.4	33.2	30.5	30.5	30.5	30.5
ADJUSTED EBITDA	578.9	578.3	660.7	712.10	609.70	590.9	630.24	683.99	742.18	797.64	848.99
EBITDA MARGIN	46.4%	45.3%	44.6%	39.9%	36.8%	34.5%	35.0%	35.5%	36.0%	36.5%	37.0%
bps yoy%	0.1%	-114.1	-70.5	-471.1	-307.6	-232.5	54.5	50.0	50.0	50.0	50.0
yoy %		2.4%	16.1%	20.5%	-7.2%	3.5%	5%	7%	7%	6%	5%
% of total revenue	36.6%	36.4%	35.9%	36.3%	32.4%	32.7%	31.2%	30.2%	29.2%	28.3%	27.5%
Total International	966.2	920.6	862.1	1101.8	1139.1	1230.1	1303.9	1408.3	1520.9	1642.6	1774.0
OPERATING INCOME	108.5	96.1	66.7	141.9	147	150.6	170.8	191.0	213.4	238.2	265.5
OPERATING MARGIN	11.2%	10.4%	7.7%	12.9%	12.9%	12.2%	13.1%	13.6%	14.0%	14.5%	15.0%
bps yoy%		-79.1	-270.2	514.2	2.6	-66.1	85.2	46.8	46.8	46.8	46.8
ADJUSTED EBITDA	293.9	279.7	254.7	304.30	292.60	322.0	365.11	408.40	456.28	509.21	567.68
EBITDA MARGIN	30.4%	30.4%	29.5%	27.6%	25.7%	26.2%	28.0%	29.0%	30.0%	31.0%	32.0%
bps yoy%	0.3%	-3.6	-83.8	-192.6	-193.1	49.2	182.2	100.0	100.0	100.0	100.0
yoy %		-4.7%	-6.4%	27.8%	3.4%	8.0%	6%	8%	8%	8%	8%
% of total revenue	28.3%	26.2%	20.9%	22.4%	22.2%	23.4%	22.6%	22.1%	21.5%	21.3%	21.2%

Risks

Threat of new entrants

Equifax is facing increasing competition in its verification services segment

Some customers are moving away because of the price increases Equifax implements every year

However, Equifax has a strong grasp on the market and the most robust data, unlikely that any competitors will make any progress soon

Move to “Bi-merge”

Three bureaus have enjoyed pricing power because FHA has required three bureau reports
Experian, Equifax and Transunion haven't had to compete due to an effective monopoly

Move to bi-merge would create competition amongst the bureaus

However, government is slow to take action and there has been pushback by lawmakers

Recommendation

Moderate buy – think long-term

12 Months Base Target	
2024 EPS	\$5.42
Target P/E	40.0x
EOY Target Price	\$216.71
% return	1.7%
x money multiple	1.0x

	1 year return scenarios			
	2024EPS	Target P/E	12m Target	% return
Bull	\$5.85	50.0x	\$292.56	37.3%
Base	\$5.42	40.0x	\$216.71	1.7%
Bear	\$5.26	30.0x	\$157.66	(26.0%)

Current TTM PE: 48x

3 Year Target	
2026 EPS	\$8.69
Target P/E	35.0x
3 Year Target	\$304.08
% return	42.7%
x money multiple	1.4x
% IRR	12.6%

5 Year Target	
2028 EPS	\$9.80
Target P/E	35.0x
5 Year Target	\$342.92
% return	61.0%
x money multiple	1.6x
% IRR	10.0%