Equifax Inc. (EFX)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (4/22/20):</th>
<th>132.49</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>165 - 103</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>16,164</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>122.0</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>120.7</td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>1.10</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>1.56</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>1.2</td>
</tr>
<tr>
<td>Rating:</td>
<td>Neutral</td>
</tr>
<tr>
<td>Suitability:</td>
<td>141</td>
</tr>
<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>7%</td>
</tr>
<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>11%</td>
</tr>
<tr>
<td>Debt/Cap:</td>
<td>59.1%</td>
</tr>
<tr>
<td>ROE:</td>
<td>22.1%</td>
</tr>
<tr>
<td>Insider Holdings:</td>
<td>0.4%</td>
</tr>
<tr>
<td>Neutral Average Risk</td>
<td>Q1</td>
</tr>
<tr>
<td>FY Dec</td>
<td>2019A 2020E 2021E</td>
</tr>
<tr>
<td>1.20A</td>
<td>1.40A 1.40E</td>
</tr>
<tr>
<td>1.40A</td>
<td>0.92E</td>
</tr>
<tr>
<td>1.48A</td>
<td>1.18E</td>
</tr>
<tr>
<td>1.53A</td>
<td>1.42E</td>
</tr>
<tr>
<td>5.62A</td>
<td>4.92E 5.51E</td>
</tr>
<tr>
<td>Revenue (Mil)</td>
<td>3,527.6 3,574.9 3,820.2</td>
</tr>
<tr>
<td>% Growth</td>
<td>3.4% 3.3% 6.9%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>24.0% 21.3% 22.8%</td>
</tr>
<tr>
<td>Adj. EBITDA Margin</td>
<td>33.4% 31.9% 34.0%</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>12.9x 13.3x 11.7x</td>
</tr>
</tbody>
</table>

Company Description

Equifax is a leading multi-national provider of credit bureau-centric information solutions to businesses and consumers. Equifax's service offerings incorporate a wide range of data, analytic/decisioning tools, and enabling technologies. Equifax was founded in 1899, and is based in Atlanta, GA.

Revenue Profile

- **U.S. Information Solutions (USIS):** Provides consumer and commercial information solutions to businesses in the U.S. including online information, decisioning technology solutions, fraud and identity management services, analytical services, portfolio management services, mortgage reporting and marketing services. Reported as Online Information Solutions (72% of segment revenue), Financial Marketing Services (11%), and Mortgage Solutions (17%; although EFX mortgage-related revenue is also recognized in USIS-OIS and EWS-Verification Services).

- **Workforce Solutions:** Provides income and employment verification (primarily in the U.S. with aspirations to build similar capabilities in select markets outside of the U.S.), which is reported as "Verification Services" sub-segment (74% of segment revenue). Also provides services to outsource certain payroll-related and HR management processes, including unemployment claims management, tax credits and incentives and I-9 and W-2 form management services, and services to allow employers to ensure compliance with the Affordable Care Act ("Employer Services" sub-segment, contributes 26% of segment revenue).

- **International:** Solutions similar to USIS segment in Asia Pac (33% of segment revenue; primarily Australia), Europe (30%; primarily U.K.), Latin America (21%), and Canada (17%).

- **Global Consumer Solutions:** Products for consumers in the U.S., Canada, and the U.K., enabling them to understand and monitor their credit and protect their identity. Also sells solutions to resellers who combine EFX information with other information/services to provide direct-to-consumer monitoring, reports, and scores.
Equifax Inc.  
April 23, 2020

**Competition**

Equifax primarily competes with Experian (EXPN-GB) and TransUnion (TRU) across many of its products and services in its USIS reporting segment, and with Fair Isaac (FICO) for scores. Equifax's commercial information solutions compete primarily with Dun and Bradstreet (private), Experian, Creditsafe (private), Moody's Analytics (MCO) through its Bureau van Dijk acquisition, and Cortera (private).

Equifax also competes primarily with Experian and TransUnion in the U.K. and Latin America. In Australia, Equifax has a strong number one market position, but it also competes with Experian and Illion. In Canada, Equifax competes primarily with TransUnion.

We believe Equifax's Verification Services business competes primarily against manual processes and in-house capabilities. Employer Services competes with various HR outsourcing and payroll providers.

Equifax Global Consumer Solutions competes with Experian, TransUnion, FICO, LifeLock/Symantec (SYMC), as well as third party reseller providers, most notably CreditKarma, and other resellers that can be both a client and competitor to Equifax.

**Quick Summary**

**We currently rate EFX Neutral.** We expect the current environment to remain challenging and recent areas of strength are likely to lessen through the balance of the year (mortgage, unemployment claims revenue, macro effects). However, medium-term growth drivers likely remain in place, including the tech re-platforming benefits, outsized growth of Verification Services, and post-breach normalization, keep us structurally positive over the long-term.

**$141 price target** reflects 25.6x our 2021 adj. EPS estimate. Over the last five years, EFX shares have traded within an NTM P/E range of 14.6x-27.9x, averaging 21.2x. We assume an above average multiple given that it has largely progressed beyond its intense post-breach risk period, we expect tech re-platforming benefits, and given that EWS/Verification Services has been growing as a percentage of earnings contribution.

**Investment Thesis**

**One of few providers with access to valuable consumer credit data.** Equifax is one of a very limited number of credit bureaus that have access to valuable consumer credit data (often one to three scaled providers in most major markets). We believe this creates a strong foundation for long-term organic growth with good margins/ROIC. Equifax's solutions are embedded in very important customer workflows, creating a largely recurring revenue base (with modest cyclicalities), and with a pricing environment that we believe approximates a rational oligopoly, even for its more penetrated and competitive solutions/use cases. Further, we believe that consumer credit data provides an attractive building block for growth. Having a very limited competitive set with access to the consumer credit data enables the credit bureaus to develop new use cases that leverage the consumer credit data, innovate to improve existing use cases, and to sell into new industries and geographies, leveraging its data and other capabilities and market position.

**Large addressable market.** We believe Equifax's data and solutions are potentially valuable to nearly any sector of the economy (including government) that deal with consumers. While we expect sustained intermediate- to long-term growth among its Financial Services client base, we expect outsized growth in non-financial industry verticals, including telecommunications, insurance, and government, and well as for other use cases such as pre-employment screening.

**Employment and Income verification an excellent business and key differentiator.** We view Equifax's Verification Services business as an exceptional business given its access to very valuable data at a much greater scale level than any competitor. Further, we believe barriers to competitor entry are high. Its Verification Services segment has a track record of strong organic revenue growth at extremely attractive margins, we believe. We also view it as a potential key differentiator relative to its primary competitors, and we believe valuable differentiated data is one of the strongest sources of sustainable competitive advantage for a data asset-centric information solution company.

**Attractive international presence.** We believe EFX has an attractive business outside of the U.S. as well, with Equifax having a higher market share in many other geographies than it does in the U.S. (with the notable exception being the U.K., where it is the third largest credit bureau). We believe its multi-national presence enables additional scale benefits as solutions can often be deployed in other geographies with limited and cost effective modification.

**Intermediate- to long-term growth prospects remain attractive.** Equifax has evolved beyond its credit bureau roots, adding new lines of business as well as new data sets (and credit bureaus are also good business given effective relatively rational oligopoly market). EFX has diversified data assets (added employment, wealth, telco data, etc.) and revenue sources (e.g., Consumer, International, and Workforce Solutions), including several businesses with high-single- to low-double-digit organic growth potential, and has also done a good job of developing new solutions, raising its growth profile. While its growth rate since the disclosure of its data breach has been below its intermediate-term historical average, we believe that its structural growth potential is not materially impaired long term by the breach (with the exception of probably its Global Consumer Solutions business, which is small as a percentage of consolidated profits, especially the DTC portion that is mostly likely to be negatively impacted, and is a business we believe is structurally a lower valuation multiple business).

**Business model has strong economic characteristics.** With limited competition, high recurring revenue (~80%), and strong operating leverage, Equifax's business model yields considerable cash flow and good returns on tangible capital.

**Potential benefits from ongoing technology re-platforming.** While EFX is in the midst of a material technology re-platforming that entails execution risk and material related spend, we believe the technology initiative ultimately has the potential to improve its data security, enable innovation, and result in lower ongoing operating costs.

Baird

2
Risks & Caveats

Data breach and cyber security incidents. We generally consider potential data breaches and cyber security incidents as a key risk for all data asset-centric information solutions companies. We believe that this risk is amplified for companies that store sensitive consumer data, which Equifax does. Given Equifax's high profile 2017 breach, we believe risk of an additional data breach at Equifax (or another credit bureau) will likely remain an elevated risk for some time (increases severity of risk).

Regulatory and legislative risk. Equifax and the other national credit bureaus are already heavily regulated by the Federal Trade Commission (FTC) under the Fair Credit Reporting Act (FCRA) and the FACT Act. That said, we believe there are risks of additional regulations and/or legislation that could negatively impact Equifax's operations, stemming either from general consumer data/privacy legislation, or from regulation/legislation that is targeted specifically at credit bureaus in the wake of Equifax's breach. We believe the probability of the passage of legislation that could be detrimental to Equifax's results is in part dependent on the construct of elected and appointed government positions, and hence view election outcomes as a potential risk to EFX shares.

Fraudulent activity, Equifax response to such activity, and public/customer/regulator reactions to fraudulent activity and Equifax's response. On September 7, 2017, Equifax announced that it discovered on July 29 that unauthorized access of its data occurred from mid-May through July 2017, impacting ~155mn U.S. consumers. Information accessed includes names, social security numbers, birth dates, addresses, and, in some instances, driver's license numbers, and other information. A smaller number of Canadian and U.K. residents were also impacted. While EFX has agreed to settle various related consumer lawsuits and with regulators, risks likely remain, especially if the stolen data would ever be proven to inflict harm on consumers, the economy, or the government (including in election processes).

Economic sensitivity. Financial results at credit bureaus have historically been pro-cyclical, correlating to consumer credit activity. While EFX data/solutions are used for a variety of client use cases (including some that are counter-cyclical), we believe that strong credit origination activity creates the most favorable environment for growth. Further, EFX typically generates a high-teens percentage of its consolidated revenue from U.S. mortgage origination activity, exposing the company to revenue fluctuations from increases and decreases in mortgage application activity stemming from interest rate movements.

Competition. We believe many of the solutions provided by Equifax are subject to competition from well-resourced and innovative competitors that have existing relationships with a significant portion of Equifax's client base.

Ongoing tech re-platforming initiative. Equifax is currently executing a significant multi-year technology initiative that will impact both its data storage and processing capabilities, and technology platforms that clients use to consume Equifax solutions. We believe that such initiatives typically create risks for companies while executing them, and believe that risk is increased should Equifax experience a challenge that disrupts its business relationship with clients or puts data that it stewards at increased risk, given its recent data breach.

Foreign exchange. International sales account for ~26% of Equifax's business, and significant moves in foreign exchange rates can create a meaningful headwind/tailwind to sales growth. Multi-national operations also increase data stewardship and related compliance risks.
Appendix - Important Disclosures and Analyst Certification

Approved on 23 April 2020 11:59EDT/ Published on 23 April 2020 12:04EDT.

Rating and Price Target History for: Equifax Inc. (EFX) as of 04-22-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of EFX.

Appendix – Important Disclosures and Analyst Certification

Robert W. Baird & Co. Incorporated (“Baird”) and/or its affiliates expect to receive or intend to seek investment-banking related compensation from the company or companies mentioned in this report within the next three months. Baird may not be licensed to execute transactions in all foreign listed securities directly. Transactions in foreign listed securities may be prohibited for residents of the United States. Please contact a Baird representative for more information.

**Investment Ratings:**
- **Outperform (O)** - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.
- **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months.
- **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

**Risk Ratings:**
- **L - Lower Risk** – Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings.
- **A - Average Risk** – Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings.
- **H - Higher Risk** – Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility.
- **S - Speculative Risk** – High growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

**Valuation, Ratings and Risks.** The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

**Distribution of Investment Ratings.** As of March 31, 2020, Baird U.S. Equity Research covered 725 companies, with 60% rated Outperform/Buy, 39% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 11% of Outperform/Buy-rated and 4% of Neutral/Hold-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

**Analyst Compensation.** Research analyst compensation is based on: (1) the correlation between the research analyst's recommendations and stock price performance; (2) ratings and direct feedback from our investing clients, our institutional and retail sales force (as applicable) and from independent rating services; (3) the research analyst's productivity, including the quality of such analyst's research and such analyst's contribution to the growth and development of our overall research effort; and (4) compliance with all of Baird's internal policies and procedures. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee. Research analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.
A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at http://www.rwbaird.com/research-insights/research/coverage/third-party-research-disclosures.aspx. You can also call 800-792-2473 or write: Robert W. Baird & Co., Equity Research, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

**Analyst Certification**
The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

**Disclaimers**
Baird prohibits analysts from owning stock in companies they cover.
This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

**ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST**
The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

**Other Disclosures**
The information and rating included in this report represent the research analyst's views based on a time horizon of 12 months, as described above, unless otherwise stated. In our standard company-specific research reports, the subject company may be designated as a “Fresh Pick”, representing that the research analyst believes the company to be a high-conviction investment idea based on a subjective review of one or more fundamental or quantitative factors until an expiration date specified by the analyst but not to exceed nine months. The Fresh Pick designation and specified expiration date will be displayed in standard company-specific research reports on the company until the occurrence of the expiration date or such time as the analyst removes the Fresh Pick designation from the company in a subsequent, standard company-specific research report. The research analyst(s) named in this report may, at times and at the request of clients or their Baird representatives, provide particular investment perspectives or trading strategies based primarily on the analyst's understanding of the individual client's objectives. These perspectives or trading strategies generally are responsive to client inquiries and based on criteria the research analyst considers relevant to the client. As such, these perspectives and strategies may differ from the research analyst's views contained in this report.

Baird and/or its affiliates may provide to certain clients additional or research supplemental products or services, such as outlooks, commentaries and other detailed analyses, which focus on covered stocks, companies, industries or sectors. Not all clients who receive our standard company-specific research reports are eligible to receive these additional or supplemental products or services. Baird determines in its sole discretion the clients who will receive additional or supplemental products or services, in light of various factors including the size and scope of the client relationships. These additional or supplemental products or services may feature different analytical or research techniques and information than are contained in Baird's standard research reports. Any ratings and recommendations contained in such additional or research supplemental products are consistent with the research analyst's ratings and recommendations contained in more broadly disseminated standard research reports. Baird disseminates its research reports to all clients simultaneously by posting such reports to Baird's password-protected client portal, https://bol.rwbaird.com/Login("BairdOnline"). All clients may access BairdOnline and at any time. All clients are advised to check BairdOnline for Baird's most recent research reports. After research reports are posted to BairdOnline, such reports may be emailed to clients, based on, among other things, client interest, coverage, stock ownership and indicated email preferences, and electronically distributed to certain third-party research aggregators, who may make such reports available to entitled clients on password-protected, third-party websites. Not all research reports posted to BairdOnline will be emailed to clients or electronically distributed to such research aggregators. To request access to Baird Online, please visit https://bol.rwbaird.com/Login/RequestInstLogin or contact your Baird representative.

**Dividend Yield.** As used in this report, the term “dividend yield” refers, on a percentage basis, to the historical distributions made by the issuer relative to its current market price. Such distributions are not guaranteed, may be modified at the issuer’s discretion, may exceed operating cash flow, subsidized by borrowed funds or include a return of investment principal.

**United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.**
The contents of this report may contain an “investment recommendation”, as defined by the Market Abuse Regulation EU No 596/2014 (“MAR”). This report does not contain a “personal recommendation” or “investment advice”, as defined by the Market in Financial Instruments Directive 2014/65/EU (“MiFID”). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area (“EEA”) by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority (“FCA”) in the UK.
For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being “Professional” investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Please note that this report may provide views which differ from previous recommendations made by the same individual in respect of the same financial instrument or issuer in the last 12 months. Information and details regarding previous recommendations in relation to the financial instruments or issuer referred to in this report are available at https://baird.blumatrix.com/sellside/MAR.action.

Robert W. Baird Limited or one of its affiliates may at any time have a long or short position in the company or companies mentioned in this report. Where Robert W. Baird Limited or one of its affiliates holds a long or short position exceeding 0.5% of the total issued share capital of the issuer, this will be disclosed separately by your Robert W. Baird Limited representative upon request.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited’s Conflicts of Interest Policy, available here, outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated’s policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated’s research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2020 Robert W. Baird & Co. Incorporated

This information is prepared for the use of Baird clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Baird. Any unauthorized use or disclosure is prohibited. Receipt and review of this information constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this information (including any investment ratings, estimates or price targets) without first obtaining expressed permission from an authorized officer of Baird.