TransUnion (TRU)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<td>Market Cap (mil):</td>
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<td>L-Term Rev. Gr Rate Est:</td>
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<td>Shares Out (mil):</td>
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<td>Float (mil):</td>
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<td>Debt/Cap:</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
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<td>ROE:</td>
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<td>Dividend ($) :</td>
<td>0.30</td>
<td>Insider Ownership:</td>
<td>0.5%</td>
<td>FY P/E</td>
<td>26.1x</td>
<td>28.2x</td>
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Company Description

TransUnion is a consumer credit-centric information solution company, and multi-national provider of risk and information solutions to roughly 75,000 businesses and millions of consumers. Its solutions are based on consumer credit data, supplemented by other proprietary data and public record data, with analytics and tech delivery serving as additional sources of value for its solutions. It operates in 30+ countries, while generating ~75% of its revenue in the U.S.

Revenue Profile

US Markets segment (59% of consolidated 2019 revenue) – provides consumer reports, scores, analytical services, and decisioning capabilities to businesses, utilizing its consumer credit data and other data assets and analytical capabilities.

- **Financial Services** (53% of US Markets revenue) – Credit reporting, marketing and analytics products across the consumer lending, mortgage, auto, credit card, and payments verticals. Includes customer acquisition/engagement, fraud/ID management, and debt recovery solutions.
- **Emerging Verticals** (47% of US Markets revenue) – Onboarding and retention solutions, transaction processing, scoring, marketing, analytics, ID/fraud management, and collections solutions across the healthcare, insurance, collections, and property management verticals and public sector.

International segment (23% of consolidated revenue) – provides services similar to US Markets to businesses in select regions outside of the U.S., totaling over 30 countries.

- **India** (17% of segment revenue and 4% of consolidated) - #1 position in attractive secular growth market via 92% ownership of CIBIL (first consumer and business credit reporting agency initially founded by Indian financial institutions).
- **LatAm** (17% of segment revenue and 4% of consolidated) - includes numerous Central and Southern American countries with largest businesses in Colombia (acquired majority position in #2 credit bureau in Q1-16), Brazil (Crivo decisioning technology and ZipCode data enrichment and registry information), Dominican Republic, and Mexico (quarter ownership of primary credit reporting agency).
- **Canada** (17% of segment revenue and 4% of consolidated) - one of two nationwide consumer reporting agencies (#2 market share behind EFX).
- **Africa** (10% of segment revenue and 2% of consolidated) - including number one market share in South Africa offering traditional consumer credit reporting, as well as insurance solutions, auto information solutions, commercial credit information services, and consumer solutions.
- **Asia Pacific** (9% of segment and 2% of consolidated) - including majority ownership interest in the principal consumer credit reporting company in Hong Kong and the primary credit reporting business in the Philippines (launched in 2011), with additional presence in Malaysia, Singapore, Taiwan, and China.
Consumer Interactive (18% of consolidated revenue) – services include credit reports and scores, credit monitoring, fraud protection, and resolution and financial management.

- **Direct** – offers premium credit monitoring including credit reports, credit scores and analysis, alerts to changes in credit information, debt analysis, identity protection services, insurance scores and the ability to restrict third-party access to a consumer’s TransUnion credit report.
- **Indirect** – sells to business partners that re-sell/bundle to consumers in financial services, retail credit monitoring, and identity protection and insurance; most notably Credit Karma, as well as other personal financial management sites and banks/financial institutions.

![Revenue (2019) and Underlying Growth Rate (Y/Y Chg.)](chart)

**Source: Company Reports**

**Competition**

TransUnion 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; typically Equifax, Experian, and/or TransUnion, and in some markets, a regional player of financial industry consortium). Further, we believe that the highly regulated nature of the U.S. credit bureau industry (and other markets), combined with the sensitive personal information that credit bureaus maintain, creates significant barriers to entry for new potential market entrants. The credit bureaus are also differentiated in their mix of industries served and in the use cases/solutions that they provide to the market. However, for most of its core solutions, we consider Equifax and/or Experian to be TRU’s primary competitor (including both Equifax and Experian in the U.S., Equifax in Canada, and Experian in South Africa and Colombia, among some of its larger geographic markets).

Additionally, TransUnion competes with other providers across specific verticals, such as FICO (FICO) within the financial services vertical; LifeLock (LIFE; not covered) within fraud services; LexisNexis (part of RELX; REL-LON/REN-AMS), Verisk (VRSK) – also a TRU partner, and Solera (private) in the insurance vertical; and Change Healthcare (f/k/a Emdeon), IMS Health (IMS), Inovalon (INOV), and TriZetto (a Cognizant company; CTSH), as well as Experian for Healthcare Revenue Cycle Management solutions.

Within its Consumer Interactive segment, TransUnion once again primarily competes with EFX, EXPN, FICO, and LOCK, as well as a number of newer freemium consumer credit offerings that partner with or license data from credit bureaus and provide free access to consumers, including CreditKarma, Credit Sesame, Quizzle and others.

**Quick Summary**

**We rate TRU Neutral, but remain positive over longer term.** Long-term growth drivers remain intact and continues to outperform peers where competing head-to-head. Long term, we expect sustained strong growth at attractive economics, given our view that TRU is a highly innovative company with many potential growth drivers in a secular growth market (high quality consumer data with limited competitive set/alternatives that is valuable to any industry interested in consumer information).

**$81 price target** reflects 27x our 2021 adj. EPS estimate. TRU’s historical average NTM P/E has been 24x within a range of 17-31x. We assume an above average multiple given valuing off cyclically depressed year and relative valuation multiples for quality growth companies have generally expanded recently.
Investment Thesis

One of few providers with access to valuable consumer credit data. TransUnion 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. TransUnion’s solutions are embedded in very important customer workflows, creating a largely recurring revenue base (with modest cyclicality), 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. In addition to the consumer credit data, TransUnion also has other diverse public records and proprietary data, especially in its key U.S. market, which it believes allows it to better predict behaviors, assess risk, and address a broader set of business issues for its customers. We also believe that TransUnion is among the best-in-class providers in leveraging analytics capabilities and tech delivery, which we believe has been an enabler of share gains/above market growth.

Established position in faster-growing verticals. Within its US Markets segment, the Financial Services vertical accounts for 53% of TransUnion’s revenue. The remaining 47% of US Markets outside of Financial Services is generated from solutions sold into faster-growing verticals/industries, including Healthcare and Insurance, as well as Rental Screening and Government. TransUnion’s solutions in these industries leverage its consumer credit data, often complemented by other data assets to create differentiated solutions, resulting in verticals that have consistently grown at double-digit rates for TransUnion in the recent past.

Exposure to faster-growing international markets and strong execution yielding above-market growth for Transunion in many markets. TransUnion provides solutions to customers in 30+ countries, but we believe that Canada, India, UK, South Africa, Hong Kong, and Colombia account for over half of its international exposure based on revenue. TransUnion has market leadership positions in South Africa, Hong Kong, and India. We expect outsized growth over the course of a macroeconomic cycle in emerging markets, where we expect secular growth of the middle class and credit active population, coupled with the development and increased sophistication of the use of consumer credit data for lending purposes and in other decision making. Growth in Canada and Hong Kong (reported as "Developed Markets") has also been excellent, aided by innovation including its CreditVision (real-time trended data) platform. Notably, TransUnion has an opportunity to leverage, and proven track record of, porting capabilities and platforms/solutions into international markets to drive high incremental ROIC and often above-market growth.

Very strong Consumer Interactive growth, amplified by first-mover advantage partnering with leading providers in indirect consumer market. Its Consumer Interactive segment has been generating well above market and accretive growth rates for TransUnion. TransUnion’s Consumer Interactive segment delivers solutions to consumers both through direct and indirect channels, both of which have been growing at double-digit rates (we estimate that Indirect channels currently account for a slight majority of its Consumer Interactive revenue). We expect the indirect market to continue to gain share relative to the direct market, and believe that TransUnion has a first-mover advantage partnering with leading providers in the indirect market that we expect to continue to gain market share, including Credit Karma. Its Direct channel has also grown at above-market rates (relative to direct channels at other credit bureaus). We believe the above-market Direct channel growth has been driven by its updated platform/user experience; innovative solutions/capabilities including its CreditView platform that enables consumers to simulate the impact on their credit score from theoretical financial decisions; more targeted advertising (premium-pricing and experience tends to cater to different socio-economic and demographic groups); and TransUnion’s corporate rebranding.

Risks & Caveats

Regulatory risk. Consumer credit bureaus are generally a heavily regulated industry, especially in TransUnion’s key U.S. market. It is subject to the Fair Credit Reporting Act and other regulations (both industry specific and more generally), and is regulated by the FTC, CFPB, State Attorneys General, and other agencies. Regulation can result in increased expense and potential fines, and also limits the permissible uses of TransUnion’s consumer credit file and other data assets. Regulation and cost of compliance appears to have increased in recent years post the financial crisis.

Data sensitivity/data breach. Given the sensitive nature of the information that TransUnion compiles, its databases are natural targets for criminals looking to engage in identity theft and other fraudulent activity. While the company takes significant precautions to ensure its information remains secure, there is no guarantee that determined fraudsters might not obtain access to TransUnion’s information. We believe that an improperly handled potential material data breach or potential intentional breach of significant regulations represents the two most important left tail risks for the company.

Macroeconomic/consumer credit sensitivity. While TransUnion has diversified its business in terms of use cases, industries served, and geographic positioning, a significant percentage of its revenue remains subject to transactional fees related to U.S. consumer credit activity, exposing the company to revenue fluctuations from increases and decreases in consumer credit activity stemming from interest rate movements as well as broader macro cycles. Exposure to consumer credit activity coupled with its operating and financial leverage can also drive underperformance in TRU shares when investor concerns regarding consumer credit activity or the general health of financial services companies intensifies.
**Competition.** While we generally believe that TRU operates in attractive markets and faces limited and rational competition for most solutions/use cases, there are competitors with materially similar core consumer credit file data assets in the U.S. and other key markets for TransUnion. While there are other points of competitive differentiation including complementary data assets, analytic capabilities, software platforms/tech-enabled solutions, go-to-market approach, and being embedded in mission-critical functions of its clients, we generally view differentiated valuable data assets as the single most important source of sustainable competitive advantage for data asset-centric information solutions companies. Further, some of its competitors possess unique and valuable data assets that TransUnion does not have access to, which can be combined with consumer credit file data to create differentiated and valuable solutions. We also note that while the company’s organic cc growth rate recently has been best-in-class, its track record of above-market growth has been relatively brief (although largely coinciding with significant changes implemented by a new(er) management team), and we consider its competitors, especially Equifax, to be good companies that are well managed. Finally, of the three largest multi-national credit bureaus and three primary providers in its key U.S. market, TransUnion has the least scale in terms of consolidated revenue.

**Foreign exchange.** International sales account for slightly less than 20% of TransUnion’s business, and significant moves in foreign exchange rates can create a meaningful headwind/tailwind to sales growth, although significant expenses are occurred in the geography/currency where the related revenue is generated.
Appendix - Important Disclosures and Analyst Certification

Approved on 13 May 2020 18:59EDT/ Published on 13 May 2020 19:04EDT.

Rating and Price Target History for: TransUnion (TRU) as of 05-13-2020

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

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