Equifax Inc. (EFX)

Announces Significant Data Breach; -13.4% in After-Hours

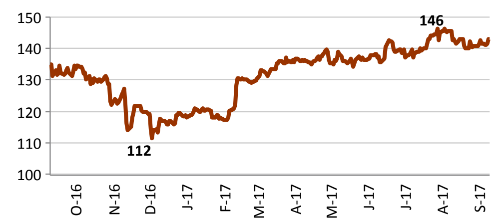
Significant data breach obviously a material negative, but -13.4% after-hours seems like over-reaction based on our understanding of events. Our understanding is data retained by EFX primarily generated through consumer interactions was breached via the Apache Struts flaw (i.e., core databases not believed to have been breached). We expect near-term operating headwinds plus material event-related expenses. However, we believe EFX's access to key data sources are unlikely to be affected, and client relationships and EFX's brand are unlikely to be meaningfully impaired intermediate to long term.

- **Data breach impacts ~143mn U.S. consumers, an event garnering widespread press/media attention.** Information accessed includes names, social security numbers, birth dates, addresses, and in some instances driver's license numbers. A smaller number of credit card numbers (209k), dispute documents (182k), and information on UK and Canadian residents also accessed.
- **Key EFX databases are not known to have been breached** as part of the incident, including the consumer credit file, TWN, NCTUE, IXI, or its commercial credit database. Our understanding is that data entered (and retained) through consumer portals/interactions (consumers inquiring about their credit reports, disputes, etc.) and data around it was breached via the Apache Struts flaw.
- **Equifax reportedly first became aware of the incident July 29,** while the breach is believed to have occurred from mid-May through July (one of the most concerning things to us is that the unauthorized access occurred for ~2.5 months before being identified, raising concerns more broadly regarding EFX's data security/practices).
- **We expect disclosure timing to raise additional questions.** While the lag until public disclosure while EFX conducted an investigation and gained a better understanding of the breadth of the breach and root causes is understandable: (1) there were several executive stock sales outside of 10b5-1 plans on 8/1-8/2 (quite plausible execs did not know about the situation or its severity at that time), (2) a Congressman is already tweeting questioning the delay, and (3) damages incurred from illicit data usage in the interim may create additional liabilities.
- **We expect near-term operating headwinds plus material event-related expenses, including:**
  - Legal expense (and potential settlements). EFX carries cybersecurity/crime insurance.
  - GCS-DTC (~8% of consolidated revenue) near-term profitability headwinds. EFX is offering free one-year TrustedID Premier tri-bureau credit monitoring, available to all U.S. consumers (must sign up by mid-November), but is not automatically switching existing paying GCS-DTC customers to a free TrustedID Premier.
  - Headwinds from selling hurdles/client relations, and management distraction.
  - Potential impacts to government contracts.
  - Other one-time expenses.
  - Accelerating investments in IT infrastructure/data security.
- **We plan to reduce our estimates shortly** (EFX plans to provide an update on the expected near term/GCS impact on its Q3 call).

Equifax is a credit bureau-centric information solutions provider, with operations in North America, Europe, Latin America, and Australia/New Zealand.

LOWERING PRICE TARGET

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Average Risk
Price Target/Previous:	▼$141/$157
Price (9/7/17):	$142.72
Market Cap (mil):	$17,398
Shares Out (mil):	121.9
Average Daily Vol (mil):	0.49
Dividend Yield:	1.1%

Estimates

FY Dec	2016A	2017E	2018E
Q1	1.23 A	1.44 A	1.59 E
Q2	1.43 A	1.60 A	1.79 E
Q3	1.44 A	1.53 E	1.71 E
Q4	1.42 A	1.52 E	1.69 E
Fiscal EPS	**5.52 A**	**6.08 E**	**6.77 E**
Fiscal P/E	25.9x	23.5x	21.1x

Chart/Table Sources: FactSet and Baird Data. Price chart reflects most recent closing price.

Please refer to Appendix - Important Disclosures and Analyst Certification

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Details

We are reducing our 12-month price target by 10%. We plan to reduce our formal non-GAAP estimates shortly, and also expect potential material "one-time" expense (we expect to reduce our adj. EPS estimate by meaningfully <10%...our guess is somewhere in the 2-5% range given that we expect the most pronounced effect at GCS-DTC, which is ~8% of consolidated revenue).

$141 price target reflects 20.8x our unrevised 2018 adj. EPS estimate, or 21.5x a preliminary estimate of $6.57 that would imply a ~3% reduction when we formally reduce our estimates. Over the last five years, EFX shares have traded at a premium to the S&P 500 NTM P/E ranging from 10-42%, averaging 24%, including an average 30% premium in the last two years. Against our preliminary $6.57 2018 adj. EPS estimate, our price target implies a P/E multiple of 21.5x, a ~23% premium to the current S&P 500 multiple of 17.5x.

We believe the net after-insurance one-time expenses are difficult to estimate. While there are unique differences in each situation, as a frame of reference, we note:

- Target "incurred $292 million of cumulative expenses, partially offset by insurance recoveries of $90 million, for net cumulative expenses of $202 million" related to its data breach (payment card data) as of its 2016 10-K, and also recently settled a related lawsuit for $18.5mn.
- Home Depot has recorded $198 million in pretax net expenses for its data breach (payment card information and customer email addresses) as of its most recent 10-K.
- Anthem agreed to a $115 million settlement for a data breach through which perpetrators "obtained personal information related to many individuals and employees, such as names, birthdays, health care identification/social security numbers, street addresses, email addresses, phone numbers and employment information, including income data."

Investment Thesis

Growth profile may be stronger than some investors perceive. 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 high-single- to low-double-digit organic growth businesses, and has also done a good job of developing new solutions, raising its growth profile.

Execution has been strong regarding new solutions, end markets, pricing initiatives, and opex management/leverage.

Analytic solutions moving Equifax up the value chain. Higher-value, complementary analytic solutions help the company forge stronger, long-term client relationships and drive higher recurring revenue.

International expansion. The company operates in Australia, Argentina, Brazil, Canada, Chile, Ecuador, El Salvador, Honduras, New Zealand, Paraguay, Peru, Portugal, Spain, the UK, Uruguay, as well as Russia and India through joint ventures. We expect these opportunities to serve as important sources of revenue diversification and growth.

Business model generates strong free cash flow. With limited competition, high recurring revenue (80%), and strong operating leverage, Equifax's business model yields considerable cash flow.

Growth in non-financial services industries. Equifax continues to see solid growth in non-financial industry verticals, including auto, insurance, and government.

Risks & Caveats

Potential for heightened regulatory oversight. While Equifax and the other national credit bureaus are heavily regulated by the Federal Trade Commission (FTC) under the Fair Credit Reporting Act (FCRA) and the FACT Act, numerous security breaches at various financial institutions and elsewhere have prompted renewed discussions among legislators regarding the potential need for further regulatory oversight. While we do not believe the credit reporting agencies ultimately will be burdened with additional regulations, it is conceivable that other users of Equifax's data could face restrictions aimed at protecting sensitive information such as social security numbers.

Fraudulent activity. Given the sensitive nature of the information that Equifax compiles, its databases are natural targets for criminals looking to engage in identity theft and other fraudulent activity. While Equifax takes significant precautions to ensure its information remains secure, there is no guarantee that determined fraudsters might not obtain access to Equifax's information.

Economic sensitivity. Equifax generates ~17-18% of its revenue from the mortgage industry, exposing the company to revenue fluctuations from increases and decreases in mortgage application activity stemming from interest rate movements.

Foreign exchange. International sales account for approximately 25% of Equifax's business, and significant moves in foreign exchange rates can create a meaningful headwind/tailwind to sales growth.

Company Description

Founded in 1899, Atlanta, GA-based Equifax Inc. is a leading provider of information solutions to businesses and consumers in North America, Europe, Latin America, Australia and New Zealand, with approximately 8,000 employees spanning 20+ countries. While best known for credit reporting services, Equifax's service offerings incorporate a wide range of information solutions, analytic/decisioning tools, and enabling technologies that assist clients in making more informed business decisions efficiently and ultimately in providing the right offer to the right customers at the right time. Approximately 80% of the company's revenue is recurring, generated from customers across industries including financial services, telecommunications, automotive, retail, healthcare, and government.

Appendix - Important Disclosures and Analyst Certification

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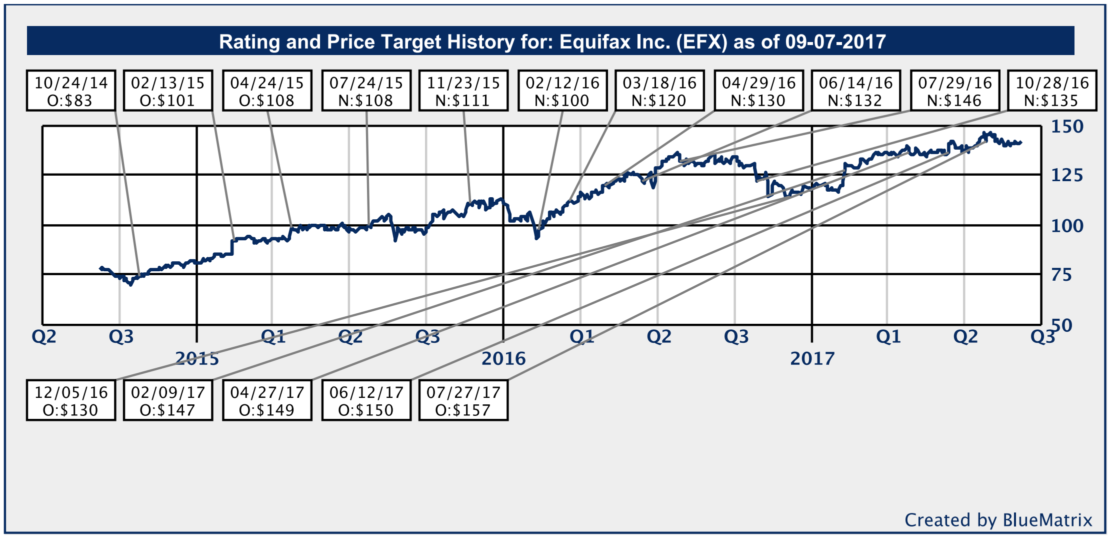

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