Mar 11, 2020

TransUnion (TRU)

$86.48 (As of 03/10/20)

Price Target (6-12 Months): **$92.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/18/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C | Momentum: C	

Summary

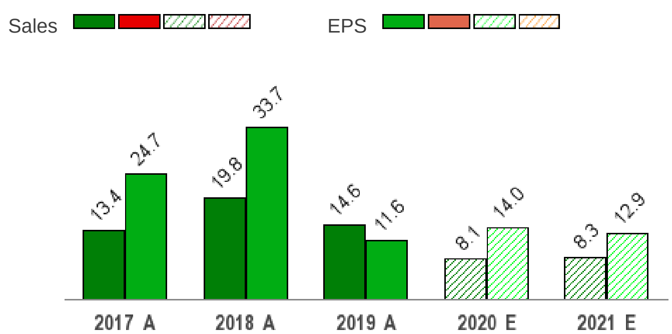
TransUnion has an attractive business model with highly recurring and diversified revenue streams, significant operating leverage, low capital requirements and stable cash flows. Huge data base is its most distinguishing asset and perhaps the biggest barrier to entry for competitors. The company serves a broad range of customers across multiple geographies and verticals, and boasts millions of customers. Acquisitions have played a major role in its growth over the last five to six years. Due to these positves, shares of TransUnion have outperformed its industry over the past year. However, TransUnion operates in a highly competitive market, which restricts its pricing power and limits profitability to some extent. Its operating segments experiences seasonality. High debt may limit the company's future expansion and worsen its risk profile.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$101.16 - $63.37**
20 Day Average Volume (sh)	**1,756,494**
Market Cap	**$16.3 B**
YTD Price Change	**1.0%**
Beta	**0.92**
Dividend / Div Yld	**$0.30 / 0.3%**
Industry	**Business - Information Services**
Zacks Industry Rank	**Bottom 28% (183 out of 253)**
Last EPS Surprise	**5.6%**
Last Sales Surprise	**1.7%**
EPS F1 Est- 4 week change	**2.3%**
Expected Report Date	**04/28/2020**
Earnings ESP	**-0.2%**
P/E TTM	**30.9**
P/E F1	**27.2**
PEG F1	**1.9**
P/S TTM	**6.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	750 E	781 E	801 E	799 E	3,111 E
2020	684 E	717 E	735 E	733 E	2,872 E
2019	619 A	662 A	689 A	686 A	2,656 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.81 E	$0.91 E	$0.97 E	$0.94 E	$3.59 E
2020	$0.70 E	$0.80 E	$0.85 E	$0.83 E	$3.18 E
2019	$0.60 A	$0.69 A	$0.76 A	$0.75 A	$2.79 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

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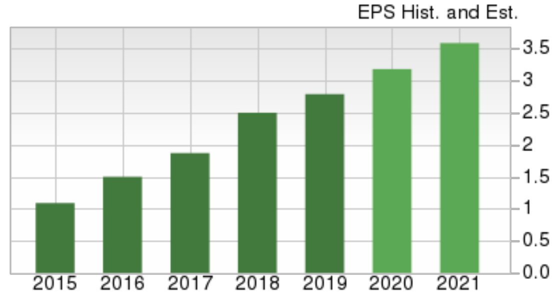
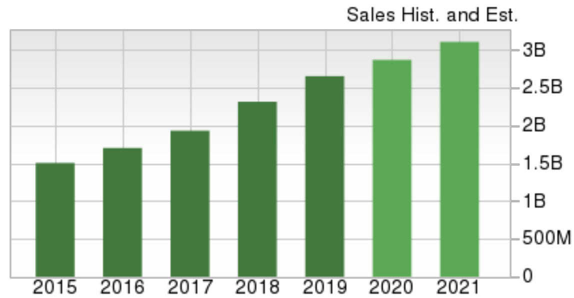
Overview





Headquartered in Chicago, IL, TransUnion is one of the leading global providers of risk and information solutions to businesses and consumers. The company provides consumer reports, risk scores, analytical services and decisioning capabilities to businesses. What sets TransUnion apart are its distinctive and comprehensive datasets, next-generation technology and its analytics and decision-making capabilities — which enable it to deliver insights across the complete consumer lifecycle. TransUnion boasts rich domain proficiency across a wide range of industry verticals, including insurance, healthcare and financial services. It also caters to verticals like wireless, real estate and general commercial/business information. Possession of both nationwide consumer credit data and comprehensive, diverse public records data, enables the company better predict behaviors, assess risk and address a broader set of business issues for its customers.

With a presence in more than 30 countries and territories, TransUnion is spread across North America, Latin America, the United Kingdom, Africa, Asia Pacific and India.

The company's operations are organized into three operating segments: U.S. Information Services (USIS), International and Consumer Interactive.

USIS segment (60% of total revenue in 2019) offers consumer reports, risk scores, analytical services and decision-making capabilities. Its services are used to acquire new customers, assess consumers' ability to pay for services, identify cross-selling opportunities, measure and manage debt portfolio risk, verify consumer identities, and investigate potential fraud, among others.

International segment (23%) delivers online data services, marketing services, credit reports, analytics, decision services, and other value-added risk management services as well as consumer services.

Consumer Interactive segment (18%) provides solutions including credit reports and scores, credit monitoring, fraud protection and resolution and financial management solutions. These solutions enable consumers easily manage their personal finances and take precautions against identity theft. Its products are provided through user-friendly online and mobile interfaces. It serves consumers through both direct and indirect channels.

Reasons To Buy:

- TransUnion's addressable market includes the **burgeoning Big Data and analytics market**, which is expanding at a rapidly accelerating pace as companies comprehend the advantages of building an analytical enterprise where decisions are derived from data and insights. Numerous underlying trends are supporting this market growth, including the creation of massive amounts of data; advances in technology and analytics that allow data to be processed more swiftly and efficiently; and mounting demand for these business insights across industries and geographies. Research firm IDC projects that worldwide revenues for big data and business analytics (BDA) solutions will grow at a five-year compounded annual growth rate ("CAGR") of 13.2%, and will reach $274.3 billion in 2022. In order to capitalize on the immense potential growth in this market, TransUnion has leveraged its next-generation technology to strengthen its analytics capabilities and has further expanded its database.

> TransUnion has an attractive business model with highly recurring and diversified revenue streams, significant operating leverage, low capital requirements and strong and stable cash flows.

- TransUnion's **gigantic treasure trove of data** is its most distinguishing asset and also perhaps the biggest barrier to entry for competitors. TransUnion has over 65 petabytes of data, growing at an average of over 25% annually, since 2010. Acquiring or building such data involves huge costs, making it extremely difficult for a new company to build the contacts and data that TransUnion already has. This fortifies TransUnion's ability to sustain its competitive advantage and protect its market share.

- TransUnion's successful **acquisition strategy** has played an important role in its growth over the last five to six years. The strategy focuses on investment in unique and differentiated data assets, acquiring new capabilities for expanding in vertical markets and expanding international footprints. So far in 2019, the company has completed acquisition of TruSignal, a people-based marketing technology company. This should strengthen TransUnion's digital marketing solutions. In 2018, TransUnion has acquired Rubixis, Callcredit, iovation and Healthcare Payment Specialists. These buyouts are helping the company with new market entry and portfolio diversification. They are contributing significantly to the company's top-line growth.

- TransUnion serves a **broad range of customers** across multiple geographies and verticals. The company has an attractive business model with highly recurring and diversified revenue streams, significant operating leverage, low capital requirements and strong and stable cash flows. In addition, the inherent nature and significance of its solutions in customers' decision-making endow it with high customer retention and revenue visibility. Impressively, TransUnion deals with top 10 largest U.S. consumer lending banks, the top ten credit card issuers, the biggest 25 auto lenders, the top 20 largest auto insurance carriers and thousands of healthcare providers as well as federal, state and local government agencies. The company has made significant investments to modernize its infrastructure and facilitate the seamless transition to the latest Big Data and analytics technologies. These enable TransUnion to expand its business and improve its cost structure.

- As emerging market economies continue to develop and mature, TransUnion is well-positioned to gain from the associated **favorable socio-economic trends**. Additionally, increased risk of identity theft due to data breaches and higher consumer awareness about the importance and usage of their credit information are propelling the demand for TransUnion's consumer solutions.

- Transunion's shares have gained 32.7% over the past year, outperforming the industry's 10.6% rally of the industry. The **outperformance** partly reflects better-than-expected earnings and revenue performance in the last four quarters. Moreover, prospects over the company's exposure to rapidly expanding Big Data and analytics market are benefitting the stock.

Reasons To Sell:

- TransUnion's operating segments experiences **seasonality**. Evidently, the U.S. Markets witnesses soft sales in the first and fourth quarter relative to second and third quarters. The Consumer Interactive segment experiences weaker demand in the second half of the year. The company's International segment revenues fluctuate depending on local economic conditions and macroeconomic market trends. Seasonality causes considerable fluctuations in revenues and profits, thus making forecasting difficult.

> TransUnion operates in a highly competitive market, which restricts its pricing power and limits profitability to some extent.

- TransUnion's revenues are considerably influenced by the overall macroeconomic conditions, such as interest rates, employment levels, consumer confidence, accessibility of affordable credit and capital, inflation and housing demand. Revenues are also significantly affected by industry trends, including the demand for information services in insurance, financial services and healthcare industry. **Adverse developments in the debt, consumer credit and financial services** markets could hamper the company's growth.

- TransUnion has a **highly leveraged balance sheet**. As of Dec 31, 2019, long-term debt was $3.59 billion while cash and cash equivalents were $274.1 million. Such a cash position implies that TransUnion needs to generate an adequate amount of operating cash flow to pay its debt. Moreover, high debt may limit its future expansion and worsen its risk profile.

- TransUnion caters to a **highly competitive market**. Its competitors widely vary according to its business segment, geographical market and industry vertical that its solutions address. The high degree of competition restricts its pricing power and puts a strain on the bottom line.

Last Earnings Report

TransUnion Tops Q4 Earnings & Revenue Estimates

Quarter Ending	12/2019
Report Date	Feb 18, 2020
Sales Surprise	1.74%
EPS Surprise	5.63%
Quarterly EPS	0.75
Annual EPS (TTM)	2.80

TransUnion reported solid fourth-quarter 2019 results, wherein its earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of 75 cents per share outpaced the consensus mark by 5.6% and improved 13.6% year over year. The reported figure exceeded the company's guided range of 69-71 cents.

Total revenues of $685.6 million beat the consensus mark by 1.7% and increased 11.8% year over year on a reported basis, 12% on a constant-currency basis as well as on an organic constant-currency basis.

Adjusted revenues (excluding the impact of deferred revenue purchase accounting reductions and other adjustments to revenues for the company's recently acquired entities) came in at $685.6 million, up 10% year over year on a reported basis, at constant currency and at organic constant currency. The reported figure exceeded the company's guided range of $667-$672 million.

Revenue Growth Across All Segments

The U.S. Markets revenues of $415 million increased 12% year over year on a reported basis as well as on an organic basis. Within the segment, Financial Services revenues of $222 million increased 16% year over year on a reported and organic basis. Emerging Verticals revenues, including Healthcare, Insurance and all other verticals, were $193 million, up 8% year over year on a reported basis and 7% on an organic basis.

International revenues rose 18% year over year on a reported basis and 19% on a constant-currency basis to $166 million. Adjusted revenues also came in at $166 million, up 10% year over year on a reported basis and 11% on a constant-currency basis. Revenues from Canada, United Kingdom, Africa, India and Asia Pacific increased year over year on a reported as well as constant-currency basis.

Revenues at the Consumer Interactive segment improved 2% from the prior-year quarter figure to $123 million.

Operating Results

Adjusted EBITDA was $275 million, up 11% year over year on a reported basis, constant-currency basis and organic constant-currency basis. Adjusted EBITDA margin came in at 40.2% compared with 39.9% in the prior-year quarter.

Balance Sheet and Cash Flow

TransUnion had $274.1 million in cash and cash equivalents at the end of fourth-quarter 2019 compared with $235.9 million at the end of the prior quarter. Long-term debt was $3.59 billion, compared with $3.65 billion in the prior quarter. The company generated $196.3 million in cash from operating activities and CapEx was $66.4 million. The company paid out $14.2 million in dividends in the quarter.

Q1 Outlook

For the first quarter of 2020, TransUnion expects adjusted revenues between $681 million and $685 million, suggesting an improvement of 9-10% year over year. Adjusted EPS is expected between 69 cents and 70 cents, indicating a rise of 15-17% year over year. Adjusted EBITDA is anticipated in the range of $261-$264 million, suggesting an increase of 9-10%.

2020 View

TransUnion unveiled its 2020 guidance. The company now expects adjusted revenues between $2.857 billion and $2.872 billion, indicating year-over-year increase of 7-8%. Adjusted EPS is anticipated in the band of $3.14-$3.18, suggesting improvement of 13-14%. Adjusted EBITDA is expected in the range of $1.141-$1.151 million, indicating year-over-year increase of 8-9%.

Recent News

On **Mar 5, 2020**, TransUnion announced that Chris Cartwright, president and CEO, and Todd Cello, CFO, will be attending the Bank of America 2020 Information Services Conference, scheduled to be held on Mar 12, 2020.

On **Feb 28, 2020**, TransUnion announced that its board of directors declared a cash dividend of 7.5 cents per share for fourth-quarter 2019. The dividend will be paid out on Mar 30, 2020 to shareholders of record on Mar 13, 2020.

On **Feb 25, 2020**, TransUnion announced that it has entered into a partnership with VisitPay, an online patient financial engagement and revenue recovery platform. The alliance is expected to improve the patient experience while maximizing revenues for healthcare providers.

On **Feb 18, 2020**, TransUnion announced the appointment of Akshay Kumar as executive vice president of Global Technology Architecture & Strategy.

Valuation

TransUnion shares are up 32.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 10.6% while those in the Zacks Business Services sector are down 1.6%, over the past year.

The S&P 500 index is down 2.3% in the past year

The stock is currently trading at 26.54X forward 12-month price-to-earnings, which compares to 23.29X for the Zacks sub-industry, 21.25X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.75X and as low as 17.93X, with a 5-year median of 25.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $92.00 price target reflects 28.22X price-to-earnings.

The table below shows summary valuation data for TRU

Valuation Multiples - TRU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	26.54	23.29	21.25	15.75
	5-Year High	24.75	27.42	25.27	19.34
	5-Year Low	17.93	19.42	18.79	15.18
	5-Year Median	25.61	22.05	20.59	17.42
P/S F12M	Current	5.6	6.37	3.37	2.91
	5-Year High	6.49	6.37	4	3.44
	5-Year Low	2.37	3.34	3.09	2.54
	5-Year Median	4.33	4.63	3.63	3
P/B TTM	Current	6.96	7	4.19	3.69
	5-Year High	8.08	8.84	6.71	4.56
	5-Year Low	2.8	4.29	4.13	2.85
	5-Year Median	5.66	6.22	5.24	3.63

As of 03/10/2020

Industry Analysis **Zacks Industry Rank:** Bottom 28% (183 out of 253)

Top Peers

Alliance Data Systems Corporation **(ADS)**	Neutral
Broadridge Financial Solutions, Inc. **(BR)**	Neutral
Equifax, Inc. **(EFX)**	Neutral
FactSet Research Systems Inc. **(FDS)**	Neutral
Fidelity National Information Services, Inc. **(FIS)**	Neutral
Fiserv, Inc. **(FISV)**	Neutral
Gartner, Inc. **(IT)**	Neutral
Paychex, Inc. **(PAYX)**	Neutral

Industry Comparison Industry: Business - Information Services

Industry Peers

	TRU Neutral	X Industry	S&P 500	EFX Neutral	FISV Neutral	PAYX Neutral
VGM Score	D	-	-	D	B	D
Market Cap	16.33 B	10.03 B	20.21 B	18.53 B	72.68 B	27.46 B
# of Analysts	10	9	13	11	16	11
Dividend Yield	0.35%	0.64%	2.18%	1.02%	0.00%	3.23%
Value Score	D	-	-	D	D	D
Cash/Price	0.02	0.03	0.05	0.02	0.01	0.02
EV/EBITDA	20.01	19.51	12.36	1,344.39	28.02	15.55
PEG Ratio	1.92	2.47	1.78	3.69	1.52	3.53
Price/Book (P/B)	6.96	6.96	2.77	7.06	2.10	10.69
Price/Cash Flow (P/CF)	18.97	21.10	11.04	18.09	15.98	19.15
P/E (F1)	27.19	27.09	16.09	26.75	21.56	24.69
Price/Sales (P/S)	6.15	7.07	2.17	5.28	7.13	6.81
Earnings Yield	3.68%	3.69%	6.20%	3.74%	4.63%	4.05%
Debt/Equity	1.54	1.04	0.70	1.29	0.62	0.35
Cash Flow ($/share)	4.56	3.61	7.01	8.45	6.70	4.01
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	29.00%	15.68%	10.85%	6.64%	17.05%	10.85%
Proj. EPS Growth (F1/F0)	14.01%	7.34%	6.14%	1.68%	24.09%	9.41%
Curr. Cash Flow Growth	14.29%	6.86%	6.09%	0.48%	147.85%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	19.23%	13.46%	8.52%	8.37%	29.38%	12.37%
Current Ratio	1.55	1.10	1.24	0.89	1.08	1.17
Debt/Capital	60.60%	53.97%	42.57%	56.30%	38.74%	25.87%
Net Margin	13.06%	12.98%	11.69%	-11.37%	8.77%	26.72%
Return on Equity	22.88%	22.54%	16.74%	26.42%	11.78%	41.21%
Sales/Assets	0.37	0.42	0.54	0.47	0.22	0.44
Proj. Sales Growth (F1/F0)	8.12%	3.63%	3.71%	5.98%	50.36%	10.17%
Momentum Score	C	-	-	F	B	C
Daily Price Chg	6.23%	2.94%	4.87%	7.88%	7.00%	5.87%
1 Week Price Chg	-0.80%	-0.80%	-0.67%	8.55%	-2.33%	0.03%
4 Week Price Chg	-9.04%	-13.95%	-15.65%	-0.29%	-11.33%	-12.63%
12 Week Price Chg	1.59%	-4.56%	-13.60%	12.27%	-8.35%	-9.98%
52 Week Price Chg	32.99%	18.52%	-2.27%	37.60%	24.34%	-1.32%
20 Day Average Volume	1,756,494	74,808	2,778,843	1,123,090	4,435,342	2,081,162
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.29%	-0.19%	-0.16%	-0.76%	-0.05%	0.00%
(F1) EPS Est 12 week change	2.34%	-1.17%	-0.57%	-1.87%	0.33%	0.01%
(Q1) EPS Est Mthly Chg	3.29%	0.00%	-0.49%	2.51%	-0.44%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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