Equifax (EFX) Earnings Report: Q2 2015 Conference Call Transcript

The following Equifax conference call took place on July 23, 2015, 08:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Jeff Dodge; Equifax; IR
- Rick Smith; Equifax; Chairman, CEO
- John Gamble; Equifax; CFO

Other Participants

- Andre Benjamin; Goldman Sachs; Analyst
- Jeff Meuler; Robert W. Baird & Company; Analyst
- Shlomo Rosenbaum; Stifel Nicolaus; Analyst
- Paul Ginocchio; Deutsche Bank; Analyst
- Gary Bisbee; RBC Capital Markets; Analyst
- Manav Patnaik; Barclays Capital; Analyst
- Bill Warmington; Wells Fargo Securities; Analyst
- Andrew Steinerman; JPMorgan; Analyst
- David Togut; Evercore ISI; Analyst
- Brett Huff; Stephens; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the second quarter 2015 earnings call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Jeff Dodge. Please go ahead, sir.

Jeff Dodge (IR):

Thanks, and good morning. Welcome to today's conference call.

I'm Jeff Dodge, Investor Relations. With me today are Rick Smith, Chairman and Chief Executive Officer, and John Gamble, Chief Financial Officer.

Today's call is being recorded. An archive of the recording will be available later today in the Investor Relations section in the About Equifax tab of our website at www.equifax.com.

During this call, we'll be making certain forward-looking statements to help you understand Equifax and its business environment. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from our expectations. Certain risk factors inherent in our business are set forth in the filings with the SEC, including our 2014 Form 10-K and subsequent filings.

We will be referring to certain non-GAAP financial measures, including adjusted EPS attributable to Equifax . It will be adjusted for certain items which affect the comparability of the underlying operational performance. Adjusted EPS attributable to Equifax excludes acquisition related amortization expense and

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the associated tax effects, an impairment charge related to our cost method investment and BVS, and an income tax benefit generated from a state tax law change.

These measures are detailed in our non-GAAP reconciliation tables included with our earnings release, and also posted on our website. Also please refer to our various investor presentations, which are posted in the Investor Relations section of our website www.investor.equifax.com for further details.

Now I'd like to turn it over to Rick

Rick Smith (Chairman, CEO):

Thanks, Jeff. Good morning, everyone. Thanks, as always, for joining us this morning.

By now, you've seen the results, and I think you'd agree, our company continues to benefit from our unique and very diversified business model. Also benefits from our high level of execution across all the BUs and the centers of excellences. And we continue to reap benefits from the new product innovation that we've launched back in 2006.

For the quarter, both revenue and adjusted EPS exceeded the upper end of our guidance range for all four business units. And they delivered revenue growth ahead of our expectations. This reflected both our continued execution of new products and market expansions, as well as a stronger than expected US mortgage market.

Total revenue for the quarter was $678 million, up 10% on a reported basis, and up 14% on a local currency basis from the second quarter of 2014. In the quarter, FX created a $19 million year-on-year headwind, up from headwind we experienced in the first quarter up $17 million.

Operating margin for the quarter was 27.8%, up from 27.3% in the second quarter of 2014. The adjusted EPS was $1.15, up 20% from $0.96 a share last year, and significantly above the upper end of our guidance range. As I always do, before John gives you some financial details, I'll go through some of the business unit highlights, as well as some of corporate highlights and then I'll go into the details of the financials with John.

The power of our Decision 360 initiative, which you by now are very well aware of, combined with our enterprise selling strategy and our mortgage market success enabled USIS to once again deliver very strong, broad-based 12% growth. Our recently launched data analytics environment, which we've introduced to you and we call it Cambrian, has positioned us to develop new D360 products at speeds that once took weeks, now take us minutes. This is something, you'll recall, we've talked about now for probably two years, and that is now fully in production in the US and making a big difference.

The primary goal of Cambrian is to source and integrate structured and unstructured data from any industry, anywhere in the world and proactively deliver actionable insights valued by our customers. What is particularly compelling is that we can now create transformational solutions by combining traditional trusted data with other big data sources in cutting edge analytical capabilities with greater ease and speed.

Cambrian will help us discover new data assets through our research and/or our Partnerships that will further broaden and deepen our portfolio of data assets and fuel new product innovation. Presently for Cambrian, the environment is focused on our US-based data assets and market opportunities. However, as we've talked in the past, we will be developing significant domain expertise that will enable us to expand into our international geographies over the next 6 to 12 months.

Moving on, and in the auto vertical in the US, we recently launched the first of three products in the Power Leave Suite, which leverages our data assets to help auto dealers be more effective in their

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marketing activities. It leveraged third-party service providers, or connectors as we call them, we help dealers leverage their website performance by turning anonymous borrowers into known high-quality leads. Consumers are now more empowered by getting their credit score online, after being be authenticated with our EID verifier services. And all of this information is with consumer authorization; it's then shared with the dealers.

Our partnership with Credit Karma, I think we had talked to you about that back in the very end of 2013, early 2014. Very end of 2014, sorry about that. That continues to be a very important revenue contributor to USIS, and is off to a great start this year. We now expect the revenue in the relationship with Credit Karma for 2015, we expect to exceed our original expectations.

Staying in USIS, for the utility sector, we launched our -- the first of our four-market-specific insight tools. Leveraging third-party data alongside our credit information and our telco and utility database. These insights will help utilities optimize their deposit strategies to better manage and control portfolio loss rates.

Our Commercial Solutions business within USIS, the product offerings in the business unit had a very strong performance in the quarter. With both excelling revenue growth, and improved operating margins when compared to the first quarter of the year.

More origination activity exceeded our expectations for the quarter. And driven by our strong market position, contributed nicely to USIS's growth and margin expansion. Our fraud and property valuation product offerings continue to deliver very strong double-digit growth in the mortgage market, as well. We'll talk, obviously in the Q&A, more about mortgage and where we that is headed.

Finally, our partnership with Jumio, which we've talked to you about in the past, has secured its first mobile commerce authentication service with a major telco. The application includes validation of an end-user's photo ID, along with facial biometrics: a first for us. While we expect the mortgage growth to decelerate for the remainder of the year, we expect USIS to end 2015 with double-digit organic revenue growth and operating margins comfortably exceeding 40%.

Let's move one to international; they continued to make very good progress on their critical strategic growth initiatives, including the integration of TDX, implementation of the UK government contract, and continue to drive innovation through new products around the globe. Revenue in international's three largest verticals, which are the financial institutions, telcos and SMEs, grew 13% for the quarter.

The decisioning platforms, analytic services, and debt management revenue grew 17% for the quarter. TDX delivered another quarter of 20% plus revenue growth, a trend we expect to continue as we move into the third quarter. Also we are in the process of entering the Canadian and Brazilian markets with TDX products and services.

We are also meeting all of our operational [audience] commitments within TDX or the UK contract that we've talked about in the past. Equifax data has been integrated into the TDX workflow for developing the consumer insights and appropriate collection strategies. The IT infrastructure build has been completed, and security penetration testing is largely completed.

20 debt collection agency contracts have been signed after vetting with the UK government. And as we've mentioned to you in the past, we expect this to be operational late fourth quarter, early fourth quarter, modest revenue this year and ramping up nicely in 2016.

Moving on to Latin America, we've identified opportunities to set up exchanges, much like we do in the US, where critical data assets are not currently available. We've already received regulatory approval in one country, and will be finalizing our plans by the end of the year.

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As you know, the exchanges have been very successful in the US with good margins and good competitive differentiation helping our customers in ways we couldn't help before. We are really excited about what this might bring us in this one country if successful there, bring it across to Latin American countries.

In Canada, we launched a six-month pilot for an e-commerce site to provide online delivery for our business and consumer credit product offerings. This distribution channel will be very attractive to our SME customers, while also addressing the growing market demand in other verticals and potentially other geographies.

We recently signed a global agreement with a large international telecom to create new analytical insights using telecom usage data. Ultimately, the analytical insights will be sold to financial institutions, retailers, and other customers in our served markets to facilitate decisioning on consumers who have limited or no credit information.

This partnership is significant for Equifax , as a new source of rich data for consumers in Latin America, which is typically a negative data only geography. We're starting with risk scores that are developed from our telecom data to address the pain point of thin file and no hit at the point of acquisition. Over time, we will expand this beyond account acquisition to other decisioning needs.

For the full year, we expect the international revenue growth to be solidly in the upper end of their long-term growth range. Which is 7% to 10%, while we continue to grow and invest in their long-term growth initiatives.

On to Workforce Solutions, they again delivered an outstanding broad-based 23% revenue growth and an operating margin of 38.3%. And they're doing a great job of executing with precision on their strategic objectives.

Revenue from all of our Affordable Care Act initiatives continued to accelerate nicely. And with the recent Supreme Court decision, we anticipate continued strong demand for our product offerings in this area. In our ACA platform solutions, which enables companies to know the extent of their compliance with the Affordable Care Act continue to benefit from very strong interest. We now have contracts with numerous employers, who in aggregate, now have 10 million employees on their payroll.

In June alone, we signed 62 new customer contracts. We are uniquely positioned to add value in the healthcare vertical, and we will be making important investments to drive further long-term revenue growth and market penetration. The strong growth in verification services was driven by continuing to add new records to the work number database. Also, double-digit growth in mortgage originations, and continued penetration of non-mortgage markets verticals. In the quarter, are non-mortgage market verification revenue grew 21%. Virtually every vertical growing strong double-digit for the quarter. Outstanding performance.

Growth and mortgage-related revenues decelerated in the second quarter, a trend that will continue for the remainder of the year. However, Workforce Solutions' success on many other strategic initiatives should continue to drive very attractive revenue growth. For the full year, we now expect revenue growth to be in the upper teens, with margin expansion over 2014 of at least 400 basis points to approximately 37%.

Onto PSOL, the PSOL's growth exceeded our expectation, driven by double-digit growth in our indirect channels and our international segments in addition to winning two breach contracts. Revenue growth for our direct to consumer activities in the US continues to be driven by higher average revenue per subscriber, and lower churn. They've done a great job on both ARPU and churn.

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PSOL is making good progress on their transformation efforts. And we expect full-year organic revenue growth to be at the upper end of the long-term range of 4% to 6%, and operating margins for the full year solidly in the range of 25% to 30%.

So again, before I go to John with the financials, let me give you some highlights at the corporate level; quickly, some things we've talked about in the past that are very critical to our sustained organic growth. You've heard me talk about NPI 2.0 and you've heard me talk about EGI as critically important growth initiatives.

In NPI 2.0, we've developed detailed metrics to better manage our pipeline of opportunities, to more effectively allocate our resources, and track our success on product launches and to minimize time till revenue. Midway into the year, we are now 10% over our revenue target. So the team is doing a great job of executing, again, in NPI.

Enterprise growth initiatives, we call it EGI, where we're focused on larger more complex projects that frequently engage multiple parts of the organization, but also have much bigger impact on our revenue growth. EGI is delivering, again, 1 to 2 points of revenue growth annually for us.

In global operations, that COE continues to make important contributions to our bottom line. Within the operation COE, you've heard us talk about LEAN initiatives, which traditionally have been used internally. We've talked a lot about that. However, with the increased level of competition and regulatory requirements in many of our industry verticals, there are many new opportunities for incremental revenue growth when we leverage LEAN within our customer's operations. Our global LEAN teams now are currently engaged with over 20 great customers, helping to drive operational improvements that are critical to their success while adding yet another element of differentiation for our business in the marketplace. So our customers become stronger and more efficient, and it helps us differentiate versus competition and secure incremental revenue.

On to our fraud and identity management business. They are presently broadening to incorporate biometrics and mobile device resolution via partnerships. We're also looking at taking on more successful products and launching them in other geographies. It's a practice we've done in other parts of the business, now we are intentionally taking fraud and ID products from one part of the world to other geographies where it makes sense.

In summary, the business is off to a solid start this year. With high levels of execution across many of our strategic initiatives. And we're well down the path of changing Equifax from a credit bureau into a truly diversified information solutions company. Our domain expertise in analytics and technology enables us to increasingly deliver powerful insights to our customers, and enhance their decision-making.

All of our business units continue to work hard to deliver on their commitments to the company, our customers, employees and shareholders. And as we move into the second half of 2015 and start to look at 2016, I strongly believe the prospects for consumer credit and the developed markets in which we operate, especially the US, will be very good. The dynamics are shaping up as a sweet spot now for consumer credit growth.

And with that, let me turn it over to John for the financials.

John Gamble (CFO):

Thanks, Rick, and good morning, everyone.

As before, I'll be referring to the financial results from continuing operations generally presented on a GAAP basis. During the quarter, we recorded an impairment charge of $14.8 million or $9.8 million after-

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tax related to our cost method investment in BVS. The impairment is in general a result of the weakened economic situation in Brazil. We also recorded an $8.6 million after-tax gain, due to a state income tax benefit resulting from a state tax law change enacted during the quarter.

The net of these two unusual items was negative $0.01 per share. Consistent with our past practice for treating unusual or infrequent items, we've excluded these items from our adjusted EPS in order to provide investors with a more consistent period-to-period operating comparison.

Now let me turn to the business units' financial performance for the second quarter. US Information Solutions revenue was $316 million, up 12% when compared to the second quarter of 2014. Online Information Solutions revenue was $233 million, up 13% when compared to the year-ago period.

Mortgage Solutions revenue was $33 million, up 20% compared to Q2 of 2014. This compares favorably to the mortgage banker's application index, which was up 16% in the second quarter. Financial Marketing Services revenue was $50 million, up 4% when compared to the year-ago quarter. And the operating margin for US Information Solutions was 42.1%, up from 39.5% in the second quarter of 2014.

International revenue was $148 million, down 1% on a reported basis, but up 11% on a local currency basis. By region, Europe's revenue was $63 million, down 1% in US dollars, but up 12% in local currency.

Latin America's revenue was $51 million, up 6% in US dollars and 18% in local currency. Canada revenue was $35 million, down 10% in US dollars, but up 2% in local currency. For the second quarter, international's operating margin was 19.9%, down from 21.9% in the second quarter of 2014.

Although the operating margin fell short of our expectations, we have a number of very exciting growth opportunities Rick has discussed that were an incremental investment and management focus. Workforce Solutions revenue was $146 million for the quarter, up 23% when compared to the second quarter of 2014. Verification Services with revenue of $94 million was up 30% when compared to the same quarter last of year. Employer Services revenue was $52 million, up 11% compared to last year, growth was aided by our ACA Analytical Solution and further progress with compliance center. The Workforce Solutions operating margin was 38.3%, compared to 33.9% in Q2 of 2014.

Personal Solutions revenue was $68 million, up 7% on a reported basis and up 8% on a local currency basis. For the second quarter, operating margin was 27.6% compared to 30.9% in Q2 of 2014. This margin is consistent with our longer term expectation for this business, as we primarily driven by increased marketing expense during the quarter.

In the second quarter, general corporate expense at $48.5 million was slightly over the guidance we gave last year. The increase versus our guidance and from the $36.6 million in 2Q of 2014, was principally due to increased incentive compensation expense due to our very strong performance in 2015. We also had increased salaries and benefits and other investment expense, primarily related to our key strategic initiatives. Looking at the third and fourth quarter, we expect general corporate expense to be approximately $45 million per quarter, consistent with 2014 levels.

Operating margin at 27.8% was very strong. Operating cash flow was $187 million in the quarter. We continued our aggressive stock buyback activity, repurchasing 0.9 million shares for $92 million. And paying $34 million in dividends to our shareholders.

With that, I'll turn it back to Rick.

Rick Smith (Chairman, CEO):

Thanks, John.

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Consistent with our guidance last quarter, we expect continued favorable economic conditions in the US. Spending the majority of our non-mortgage verticals, and I'll talk about mortgage in a second, internationally, we continue to expect uneven economic conditions across Europe and Latin America.

On our view of the US mortgage market in the second half of 2015, is roughly consistent with our prior guidance. As we expect US mortgage market originations to be up slightly in the second half of 2015, versus the same period of 2014. We are, however, increasing our full-year view for 2015 mortgage originations to be up somewhere between 11% and 13% versus 2014.

The US mortgage market was stronger than our expectations in the first half of the year, with originations up approximately 20% versus last year. And again, we'll talk about the nuances and the impact of moving from a refinancing mortgage market to a purchase market, which we are in the process of doing. The benefits that has for our company.

For the third quarter, we expect organic revenue to be between $655 million and $670 million reflecting constant currency organic growth between 10% and 12%, partially offset by about 3% FX headwind. Adjusted EPS is expected to be between $1.08 and $1.11 per share, which is up 7% to 10%, excluding $0.03 per share of negative impact from FX. This reflects constant currency organic EPS growth of 10% to 13%.

We also expect operating margin to be in the range of 27 % to 27.5% for the quarter. For the full year, we have again increased our guidance for revenue and adjusted EPS. We expect now 2015 revenue to be between $2.645 billion and $2.67 billion, up from our previous guidance which was $2.585 billion to $2.635 billion and which reflects constant currency organic revenue growth of 11% to 12% for the year.

This strong revenue growth is partially offset again by approximately 3% negative FX impact. And as before, this is all organic revenue growth.

2015 adjusted EPS is now expected to be in the range of $4.38 to $4.42 a share, also up from our previous guidance. And this reflects 13% to 14% EPS growth for the year. On a constant currency basis, excluding $0.10 per share negative impact of FX, at current rates this reflects 15% to 16% growth for the year compared to 11% growth in 2011.

In summary, we are also more intently focused now on strategic inorganic growth as we have developed a more robust pipeline of potential opportunities now that we have fully integrated TDX into our operations. So as we've talked to you in past, the intent was to be more focused on that. As we exit 2015 and into 2016, we're ready to do just that.

So that's all the prepared comments. So, operator, if you could please open it up for Q&A for John and I, that would be great.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Andre Benjamin, Goldman Sachs .

Andre Benjamin (Analyst - Goldman Sachs):

I was hoping to maybe dig a little bit more into verification. I didn't know if you would be able to provide any color on how much of the revenue is coming from your success penetrating autos versus the ACA contract which has been ramping nicely versus other verticals. And if there are any others, maybe is a bit

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of color on where you are seeing the most traction.

Rick Smith (Chairman, CEO):

Sure. As I briefly alluded to in my comments, the trends we saw emerging 2014, and clearly into the first quarter of 2015, are continuing. It is extremely broad-based. So think about the growth first and foremost on the verification side being as you continue to add records, that's all incremental revenue right there, and they've been adding records for a long time now.

Secondly, mortgage obviously strong. Third as I alluded to in my comments, almost every, in fact, I think it is every non mortgage vertical is growing strong, strong double-digits. That is pre-employment, that's collections, that's automotive, that's card, I can go on and on and on, extremely strong.

And then as you mentioned, the Workforce Analytics. We continue to have customers there, I said 10 million consumers are now being or employees are now being monitored, and 62 clients alone in the month of June. So it is as broad-based a performance of growth as you could hope for in EWS, just spectacular.

Andre Benjamin (Analyst - Goldman Sachs):

And in the indirect channel, you mentioned the Credit Karma relationship continues to ramp and contributed nicely. One, are you willing to disclose any amount that that is actually contributing? And two, as that seems to be performing a little bit better than you expected, how are you thinking about the potential to aggressively push to work with other partners?

Rick Smith (Chairman, CEO):

Great question. It's the [lowly]. So we gave you a number early in the year. It's ahead of that rate at this juncture.

But we still have six months of the year to go, so it's hard to say where that goes for the full year at this time. It's been very successful, we like the model. And as we have talked to you in the past, we look at that D to C, be it through a business to a consumer or direct to consumer as one unified strategy.

So in this particular case, we have our PSOL unit and USIS working together strategically to make sure this makes sense, not just short term but long-term. And yes, there is nothing to prevent us from looking at taking the success we've had with Credit Karma and either doing it ourselves directly, or doing it with other indirect players.

Andre Benjamin (Analyst - Goldman Sachs):

Thank you.

Rick Smith (Chairman, CEO):

Sure.

Operator:

Jeff Meuler, Baird.

Jeff Meuler (Analyst - Robert W. Baird & Company):

I guess one of the things that jumped out to me, Rick, is even getting out to Q3 as you anniversarying the mortgage weakness, still guiding to 10% to 12% constant currency growth. And as you talk about the business, it sounds like almost every business unit is at or above the long-term guidance ranges.

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So is there anything that is unsustainable in the growth rate? Or said another way, when you're in the sweet spot of the consumer credit cycle in some of the larger developed markets, can you sustainably grow above the longer-term targets?

Rick Smith (Chairman, CEO):

That's obviously something we'll develop over time, and something we keep a close eye on, Jeff. And it depends on the horizon you are looking at. But specific to the third quarter guidance and maybe second half guidance, you are right.

It is not just every business unit. It's the sub business units within those business units, and the sub sub. So that could be the auto vertical within international, but also the auto vertical within all the countries in international performing extremely well. It is very, very broad-based, and their execution is at an externally high level.

Let me use your question to respond to something I briefly alluded to in my comments. Which is, the nuances of mortgage and how mortgage impacts our thinking for the balance of the year and next year.

And you guys know this as well as we do. The world is going -- the US market is going from a heavily refinancing distribution to now back to more of the normal distribution, which is heavily skewed toward purchases and less and less towards refinancing. And while the overall market will soften, I think it is clearly going to soften in the second half this year versus the first half, in 2016 we'll be less than 2015 - maybe modestly up from 2015.

The nuance that's positive for us is that when you go from the refinancing market to a home purchase market, it's actually a benefit. In many cases, individual bank policies may not require them to pull a VOE, VOI, verification of employment verification of income. When you do a purchase they pull a VOE, VOI.

Secondly, when you go from refinancing to purchase, you are going to pull, as we've told you in the past, far more credit files. Your broker may pull a credit file, you as a consumer may shop at the four different banks, five different banks, each time pulling the file.

In refinancing, you don't do that. They may pull one file. So even though the mortgage market growth rates will slow as we go forward, including the third quarter, we think there is some hidden gems in there for us as you rebalance to a purchase market.

John Gamble (CFO):

Also as you do the math on the full year, since we have given you full-year guidance and guidance for the third quarter. As you back into the fourth quarter, what you see is our revenue growth rates on a constant currency basis are moving back down toward our long-term averages.

Jeff Meuler (Analyst - Robert W. Baird & Company):

Fair enough. And then, I know NPI 2.0 is still a little bit early, but are seeing signs that you're going to get more, call it, extra base hits out of the NPI 2.0 products?

Rick Smith (Chairman, CEO):

I alluded to that, I think, in my comments, that we had a -- you see in our budget about 10% for the quarter. But that combined with the topic we've talked about now for a few quarters, which is Cambrian.

You cannot underestimate, this has been a multi-year heavy investment that now gives us the ability to partner with our customers and build products in seconds where it used to take weeks or months, and that fuels NPI as well

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Jeff Meuler (Analyst - Robert W. Baird & Company):

Got it. Thank you, and hats off to you and the broader team.

Rick Smith (Chairman, CEO):

Thank you very much

Operator:

Shlomo Rosenbaum, Stifel.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Rick, I was wondering if you could, if not quantitatively maybe qualitatively talk a little about the volume -- the growth that is in USIS. Maybe where you are getting tailwinds, or how much you can attribute to tailwind from the end markets which you've talked about is getting better?

And how much more just some of the initiatives that you have been very aggressive about? Besides the Credit Karma, there is also fraud initiatives, ID identification, and other things out there. So I guess how much is market versus how much is you guys just trying to anticipate where the best places are to be?

Rick Smith (Chairman, CEO):

Good question. I think there is no single answer.

I think generically in the US, and I think said in some of my comments, we were expecting improved economic environment. So I talked about moving to a sweet spot of consumer credit. As you exit this year and go into 2016, it's not robust yet in the US.

It is improving. The nuance of difference there would be the automotive, obviously very strong, and we've benefited from that. But we've also benefited -- we are growing at rates multiples of the automotive growth rates, as you know, Shlomo. Through our connector strategy, which are partners and new product introduction.

Card, we are seeing pre-screen pick up, which is encouraging, and that should lead to more card revenue going forward. Insurance is strong. Retail banking is strong.

So it's fairly broad-based. But the heart of your question is other than automotive, the majority of the USIS growth that we are experiencing is not economic -- some of it is economic driven, but more of it is driven by new product innovation, more spend with our customers, obviously in D360 and things like that versus the market itself.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Okay. That's what I'm getting at. So you're sense is that it's being in the right places and the initiatives that you guys have put forward, versus just the rising tide lifting all boats?

Rick Smith (Chairman, CEO):

And I think the rising tide will lift all boats eventually, but yes, we have been at D360, I think it's in 2007, so eight years. And all the things we've done by leveraging D360 then delivering building Cambrian, building NPI. It's those things by and large that are driving more of our core organic growth in the US than it is the economic environment.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

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Okay, great. And then just turning to international. Clearly, top line growth and the ability to drive the top line is the key. Can you talk about the things that impacted the margin that are really longer term efforts that you are making towards driving that top line growth?

Rick Smith (Chairman, CEO):

Yes, absolutely. There's more than was talked about before. It was two things we were doing.

And one, the beauty is, Shlomo, before I give you the two things we are doing. Is John and I have the luxury to invest in areas where we need to invest, and PSOL is one of them we've been investing in now for a couple year, as an example. And we told you, we will accelerate the growth there from our competitors, but the margins will come down 25% to 30%.

And we also told you we're going to invest in international. As for long-term growth and probability, we can do those things and still give you what you told you we're going to do which is a 25 to 50 basis point corporate margin expansion, and we've done that. And I think margins were up 120 basis points in the first quarter and 50 basis points in the second quarter.

Specific to your question now. There are two things we are investing in in international, which I firmly believe benefit us long-term. One is the government contract we've talked about in the UK.

That is a large complicated investment that we've had to make. This required resources from around the globe to stand up this environment to be ready to go live, end of the third quarter early fourth quarter. And I think we've talked to you about that now as a group for a few quarters, so that's one.

The other has been, with our ability now to standardize platforms, we're now going to regional centers in international. And there is a cost associated with moving from replicating processes in every country to regionalizing those processes in fewer countries.

So there is investment required, but yet there's -- so those are the two things we are investing in now as well as NPI, but we always to that. That will bode well long-term, but creates some headwinds in margins short-term.

John Gamble (CFO):

And just near term, to what you are seeing in the first half of this year is we just have a revenue exchange. We talked about Canada being a little weaker, a lot of it because of FX. There is an FX impact, but also Canada is a very high-margin country for us, similar to USIS. So when Canada is weaker, is affects our international markets.

Rick Smith (Chairman, CEO):

Great point.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Got it. Last one, just if I can squeeze in. Hey, John, how much more can you squeeze out of these DSOs? You have pretty healthy DSOs, they continue to trend down. Is there really room to go over there when I think about cash flow, or how should I think about that?

John Gamble (CFO):

It continues to be an area of focus. Obviously, a lot of that is driven by mix as well, DSOs internationally are a bit higher. And since you've seen pretty good local currency growth internationally, that does negatively impact DSOs. But it's something we continue to focus on, and obviously, we'll hope to squeeze

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them down over time.

Shlomo Rosenbaum (Analyst - Stifel Nicolaus):

Thank you.

Operator:

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio (Analyst - Deutsche Bank):

Just the 62 contracts in ACA analytics, how does that relate to the total contracts? And then just on the acquisitions, I would assume you are focused on more consumer data than say industrial data. Are you looking for tuck ins, or are you thinking about doing -- is there something larger out there, or are you ready for larger deals if they are available?

Rick Smith (Chairman, CEO):

Paul, thank you. I can't recall -- does anyone here recall the number of contracts we signed? EWS? I am looking at the guys, we're getting different answers.

Jeff, what's the number? It's 62 signed, and he's saying how many contracts have we already signed year to date?

Okay, I'm being told that -- off the top of my head, over 200. So 62 in one month is a big number.

Paul Ginocchio (Analyst - Deutsche Bank):

Yes.

Rick Smith (Chairman, CEO):

And the second question on acquisitions. Thank you team for your great work there. On acquisitions, obviously I'm not going to disclose the details, but we do a good job with tuck ins. So it would fit our strategy which is data analytics, to geographical expansion, and I'll leave it at that.

Paul Ginocchio (Analyst - Deutsche Bank):

Okay.

Rick Smith (Chairman, CEO):

Okay. Thank you.

Operator:

Gary Bisbee, RBC Capital Markets.

Gary Bisbee (Analyst - RBC Capital Markets):

Just a question on the Workforce Solutions, and particularly the work number. It's obviously been a terrific asset, as you've built out the database and expanded the end markets that that data is used in. How much runway is left on each of those strategies?

And I guess looking at the -- outside of mortgage, which can move around, you have seen pretty steady acceleration in that over the last years. What could slow the non mortgage growth there as we think over

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the next year?

Rick Smith (Chairman, CEO):

Thanks, Gary. Let me regress for a second since I think we now have the actual data for Paul's question. On the Workforce Analytics contract signed last year, was 240 for the total year 2014. Ramping up nicely, it will probably more than that in this year, as 62 was the month of June alone.

Gary, back to your question. What's driving it and how sustainable is a non mortgage growth in EWS, was that the heart of your question?

Gary Bisbee (Analyst - RBC Capital Markets):

Just the work numbers seem to have gained a lot of momentum in the last year that -- and what's the runway on that, how sustainable is it?

Rick Smith (Chairman, CEO):

Very sustainable. Dan has done a hell of a job taking a very good business and bringing it to a new level. And we told you, and we've talked about this for quite some time, we have a path to get the records up to $300 million.

And every time have a record, you get multiple bites of the apple. It becomes more valuable for more verticals, you have revenue added incrementally for that record being added. So that's one.

Two, Workforce Analytics are in the very early stages. The IRS piece of the Workforce Analytics goes live in February of 2016, so we haven't even experienced that revenue growth yet.

The non-verification piece of EWS, we've got a great leader in there doing a great job of thinking that that business no longer as just protecting the work number, but innovating, investing and efficiency for our customers and making the customer experience better. Taking that business from virtually a no growth to a nicely growing business.

So as I look, Gary, at the portfolio assets we have, and I've told our investors this time and time again, I think they are all really well-positioned for long-term multi-year growth. The one that has got I think the most significant growth opportunities over a multi-year period of time is in fact EWS.

Gary Bisbee (Analyst - RBC Capital Markets):

And given that, what are the prospects to try to begin to build something like the work number in other countries? It seems like it has been such a home run, that I realize it probably would take years. But is that something that is on your radar?

Rick Smith (Chairman, CEO):

Clearly.

Gary Bisbee (Analyst - RBC Capital Markets):

Okay. Thank you.

Rick Smith (Chairman, CEO):

Yes. Thank you.

Operator:

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Manav Patnaik, Barclays.

Manav Patnaik (Analyst - Barclays Capital):

Obviously, there is a lot of good internal initiatives, like you said, driving or others that organic growth. I just want to touch on your comments on we're entering the sweet spot of the credit cycle. Can you give us some reference from your experience how long that cycle can last, what are some of the signs to look for in terms of how well that's progressing? Maybe just a little bit of color on that.

Rick Smith (Chairman, CEO):

Yes. Sure. I'll give you my view, but there is others economists that we obviously deal with that can give you their view of banks. They will give you their view.

But here's why I described it that way. I intentionally described it in our larger developed markets, so the UK, Canada, and the US, and I underlined or underscored particularly the US. What you've got is the emergence of obviously higher employment rates or unemployment rates starting to see wage growth, starting to see home price growth -- continued home price growth.

Consumer confidence is growing. The banks are stronger now than they have ever been.

So their ability to lend to those that want to borrow is as strong now -- is becoming strong now as it has been since maybe the 2005, 2006, 2007 timeframe. So that's why I am saying I feel like in those countries specifically, we are moving into what I view as a sweet spot for consumer credit, and obviously that benefits us.

Manav Patnaik (Analyst - Barclays Capital):

Okay. And then just in terms of, Rick, we always talk about NPI and the aspirations have obviously continued to push that [grower] up. It sounded like obviously even though it was this quarter at least, significantly exceeded your expectations.

Can you address -- I think in one of the previous questions you said, momentum looks like it should continue. But real preliminary, looking into 2016, do you still think you guys will can continue this momentum and do the above average growth you guys have been doing?

Rick Smith (Chairman, CEO):

Emphatically yes. And it is not just NPI 2.0, there is something I think we introduced to you and I've alluded to it today. I can't remember when we introduced it.

But the EGI enterprise growth initiatives, but canning the rest of my thought as well, that is adding one and two points of growth annually for us on top of what we get from NPI. So it's a combination of those two is truly in our DNA, and it doesn't mean we become complacent about it, Manav.

We have got to continue to make sure we reinvigorate it, reinvent it, and that's why we took a time out and introduced 2.0. And that is why we introduced EGI maybe three or four years ago is we've always got to challenge ourselves to finding different ways to innovate for our customers.

John Gamble (CFO):

And if that' excessive, let's just be confident in the 6% to 8% organic growth model that we continued to focus on.

Manav Patnaik (Analyst - Barclays Capital):

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Again, just last one, is there any update to the TDX UK contract?

Rick Smith (Chairman, CEO):

Yes. I gave a few brief highlights. It is moving along very well.

We've stood up the technical environment, we have cleared almost every operational hurdle that the government has asked for. And we expect to go live -- I think our first date of feed is this week and next week, and really start going five late third quarter into early fourth quarter. Really consistent with we talked about maybe nine months ago, modest revenue in the fourth quarter and ramping up nicely in the first quarter 2016.

Manav Patnaik (Analyst - Barclays Capital):

All right. Thanks a lot guys

Rick Smith (Chairman, CEO):

Thank you.

Operator:

Bill Warmington, Wells Fargo .

Bill Warmington (Analyst - Wells Fargo Securities):

So for PSOL, what's going on in the affinity business? And that market has been quiet for years, but now it is coming back to life. Why is that, and are you guys participating in that?

Rick Smith (Chairman, CEO):

I am looking, okay, it's starting to come back. We are not as heavily focused in the affinity market as others are. We are heavily focused in the indirect market, and I think I alluded to in my earnings notes that that is going strong double-digit for us. But we are not a heavy player in the affinity market.

Bill Warmington (Analyst - Wells Fargo Securities):

Well then, back in April, you announced a new version of the FICO score that used the NCTUE data. To help generate a FICO score for consumers that didn't have sufficient data in their credit files to do a traditional FICO score. So how is that pilot going, and does it have a chance to become a meaningful contributor to revenue for you someday.

Rick Smith (Chairman, CEO):

I think so. It's early days. But I think any time we can help our customers, be it banks or telcos, get transparency and better insights into the under banks. They win, the under banks win, and we win.

I alluded to the fact in of the Latin American countries, we're building capabilities with an exchange transparency in that exact segment. It has nothing to do with the FICO score you're talking about leveraging our utility database, but it's the same concept. How do you get transparency through the under bank, and I think if we do that smartly and the FICO scores are one way to do that, again, that is a win-win-win.

Bill Warmington (Analyst - Wells Fargo Securities):

Excellent. Thank you very much.

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Rick Smith (Chairman, CEO):

Thank you.

Operator:

(Operator Instructions)

Andrew Steinerman, JPMorgan .

Andrew Steinerman (Analyst - JPMorgan):

Rick, you chose to highlight that you feel good about 2016. I just wanted to make sure I got the revenue movers, the needles that you could see right now at this point that influence 2016.

So what I picked up was, if you wanted to strengthen consumer credit application environment, the UK government contract ramping within debt placement. And obviously the multi-year path for Workforce Solutions. Are there any other drivers that you see today that influences your 2016 view?

Rick Smith (Chairman, CEO):

I'll give you -- so it's a continuation of all the things we do, which is NPI, EGI, LEAN, operational excellence of execution. But the macro things, yes, a healing US economy will be the sweet spot for consumer credit, and same with the UK, same with Canada. The TDX contract, as you alluded to as well, and on [EBID] we also continue to go through ACI.

Andrew Steinerman (Analyst - JPMorgan):

Right. And if you would just call out a vertical for 2016 that you feel like is strengthening, what vertical do you feel has the ability to break out 2016?

Rick Smith (Chairman, CEO):

The management obviously would be additional the government contract in the UK, and I would say Workforce Analytics, clearly will be another big step up. I think the market in the US, the [auto] market, will be modestly up versus this year.

But I think that is still another year of great growth prospects for us as we continue to mature with our strategy there. So those are a couple.

Andrew Steinerman (Analyst - JPMorgan):

Thank you. Appreciate it.

Rick Smith (Chairman, CEO):

Sure.

Operator:

David Togut, Evercore ISI.

David Togut (Analyst - Evercore ISI):

Thank you. Good morning, Rick and John.

Rick Smith (Chairman, CEO):

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Hello, David.

David Togut (Analyst - Evercore ISI):

I apologize, I joined the call a few minutes late. But did you disclose, Rick, the number of active work number records?

Rick Smith (Chairman, CEO):

No I did not. I talked -- someone asked the question, David, I cannot recall who it was. I apologize for that -- but about work number. And I talked about long-term growth, and we have a path and a strategy get us our total records to 300 million.

David, maybe about a year or two ago, I've intentionally talked less about the active. That's growing by the way, it is going very nicely. And I'll pass is over and move on to do.

But I'm talking more about this path to 300 million records. Because there was a misnomer that I fueled maybe eight years ago with EWS, in that there was more value or perceived value in active versus total. We derive a lot of value from the historical records as well. So in an attempt to make sure everyone understood that, we're really talking about getting the total database up to 300 million and we are on our way.

David Togut (Analyst - Evercore ISI):

Understood. And then just shifting gears, you talked about Credit Karma a little bit. What experience have you had in upselling from the indirect channel, a higher value added Equifax services?

Rick Smith (Chairman, CEO):

Within PSOL or within Credit Karma?

David Togut (Analyst - Evercore ISI):

From the Credit Karma relationship specifically.

Rick Smith (Chairman, CEO):

Very little.

David Togut (Analyst - Evercore ISI):

Okay. Is that --?

Rick Smith (Chairman, CEO):

That is an opportunity long-term.

David Togut (Analyst - Evercore ISI):

Okay. Is that difficult to do?

Rick Smith (Chairman, CEO):

No. It hasn't been a priority yet. It's just getting the relationship understood, stood up and running. But it's nothing to take a look at long-term.

David Togut (Analyst - Evercore ISI):

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Understood. And a quick final question. Longer term thoughts on Brazil and how your relationship with Boa Vista will evolve?

Rick Smith (Chairman, CEO):

That's a great question. Thank you for asking that. Medium-term, and I know your question was long-term, medium term whatever that means, I'm bearish on Brazil. Politically, economically it is in a down cycle, and I'm not sure if that' another two years, three years. But it's tough.

Secondly, I think everyone knows, there was a law passed a couple years ago to include positive data which we thought was a positive, no pun intended there, there is a cloud over that possibility. It's likely or possible that the positive euro is in fact controlled and built by the banks, much like [Sirossa], if you remember Sirossa of old, on the negative data was built. So I'm not sure strategically what that does to the Brazilian market long-term.

Right now, I've always said before, I get aggressive at doing to step up my our ownership in Brazil. I've got to really understand what the economy is going to, and how long is it going be in the downtrodden environment, and where does the positive euro go? I think we had clarity on the latter, the positive euro, probably in the next 12 months. And we'll make a decision at that point in time.

In the meantime, they are good partners. TMG is a good partner, Boa Vista is a good partner, and we continue to work with them to make sure that they are as successful as possible.

David Togut (Analyst - Evercore ISI):

Understood. Thank you very much.

Rick Smith (Chairman, CEO):

Thank you.

Operator:

Brett Huff, Stephens Incorporated.

Brett Huff (Analyst - Stephens):

You talked a little bit about EGI, and it's the first time you've called out maybe 1 or 2 points of growth from that. And it seems like that was more than in my mind that that might be contributing, and I guess I have a two part question. One is, when you're duking it out for wallet share with the other bureaus and the other relevant players, what's helping you win in that relationship?

Is it just the long-term relationship, is the incremental unique data sets you have, et cetera? And then number two, what takes that to the next level? Is it just execution and going through systematically each of your top 50 customers or whatever it is, or is there another gear in EGI that helps us even accelerate from 1 to 2 points?

Rick Smith (Chairman, CEO):

Thanks, Brett. I'd say more, we get good competitors and I respect our competitors. And they do a good job in the marketplace, and you've got DNV or be that to you Experian, or local competitors in local countries.

Two, you cannot under estimate the power of having good people, and we have been blessed to have some really good talented committed people. And beyond that, I would say there's no doubt that

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innovation, be it through EGI or NPI, really leveraged by unique data assets has been a huge differentiator over the years.

And I tell people that the growth in that area of innovation isn't always or even largely share gain. It is in some cases clearly, Brett, but it is solving problems that no one else can solve. So if they used to spend $100 in the ecosystem, if they are now spending $110, we get the incremental $10 spent. That's really where the great leverage is.

And then the other thing is, where was I going to go, Cambrian obviously will be an enabler long-term for us. So beyond that, how do you sustain that? Yes, I think it's sustainable midterm and long-term.

As I mentioned to someone else's question earlier, we have got to continue to reinvent ourself, remain contemporary. I think we've also got to say, what is the next asset we need that adds value to our customers that our competition or the marketplace is not adding today?

So in our strategic planning process, we always think about what is next. Obviously, I would not allude that here, but that is something we think about.

Brett Huff (Analyst - Stephens):

Great. That's what I needed. Thanks for your time.

Rick Smith (Chairman, CEO):

Thanks, Brett.

Operator:

Gary Bisbee, RBC Capital Markets.

Gary Bisbee (Analyst - RBC Capital Markets):

Just one quick follow-up. Given the momentum and the ACA compliance offering, do you feel like all companies or the vast majority of companies are trying to get that together this year and then you've got a much tougher comp for that next year? Or is this going to be a multi-year thing where you broaden out the analytics and are able to sell into that customer base?

Rick Smith (Chairman, CEO):

Clearly multi-year. People are going to get -- I can promise you this. The majority of companies when we talk to CEOs and we talk to the Chief HR officers, they're thinking about this today.

And they are either looking to [oster] someone else in the marketplace to solve those problems, or they're trying to build their own home-grown solutions, and if they're out of compliance, they're going to get fined. As those fines start to mount, their need for solutions go up and the urgency for the solutions go up.

Secondly, I alluded, Gary, in my comments that the IRS piece of the compliance goes live February of next year. So we haven't even monetized that yet to it's fullest extent. So I think if it's a baseball analogy, the Workforce Analytics potential is in the very early innings of its growth.

Gary Bisbee (Analyst - RBC Capital Markets):

Great. Thank you.

Rick Smith (Chairman, CEO):

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Thank you.

Operator:

That does conclude today's question and answer session. At this time, I will turn it back over to management for any closing remarks.

Jeff Dodge (IR):

I want to thank everybody for their time and their interest and their support of Equifax . And with that, we will conclude the call. Have a good day.

Operator:

And that does conclude today's conference.

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