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Financial Analysis of TransUnion Based on the DuPont Model

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Abstract: The US personal credit reporting market is dominated by Experian, Equifax, and TransUnion. Financial changes in any of these companies can potentially affect the entire market. Utilizing the DuPont analysis and the data collected from TransUnion's annual reports in EDGAR, this article unveils the four financial indicators encompassing TransUnion's performance spanning from 2018 to 2022. Notably, TransUnion exhibited a commendable degree of stability and robustness within its financial landscape during 2018-2020. Nonetheless, the acquisition and divestiture undertakings in 2021 inadvertently inflated TransUnion's profitability, thereby engendering an exaggerated assessment. The reverberations of the subsequent asset restructuring reverberated acutely in 2022, precipitating a substantial erosion in profitability and a marginal attenuation in TransUnion's ability of asset management. Additionally, it puts forth a set of advanced recommendations for improving the current state of TransUnion. For instance. strategic asset integration and personnel optimization of acquired companies can effectively bolster capital turnover rates and profitability.

Keywords: financial report, Dupont Method, TransUnion, return on equity

1. Introduction

Credit plays a significant role in forming creditor-debtor relationships. The United States is one of the world's leading countries in credit consumption, with a well-developed personal credit system. The US has established a credit reporting system based on a market-oriented model, with commercial credit reporting companies forming the backbone of the system. After years of market competition, the US credit reporting industry is now dominated by three major players: TransUnion, Equifax, and Experian. Collectively, they generate over $10 billion in revenue and hold a market share of 95% [1].

As the smallest of the three major credit reporting companies, TransUnion has faced intense market competition. In 2021, the company sold its healthcare business to generate revenue to repay debt related to its acquisition of Sontiq and to prepay $400 million of debt. It also plans to acquire Verisk Financial Services and Argus to further strengthen its investment portfolio. However, these aggressive moves have had a significant financial impact on TransUnion, as reflected in its 2022 financial reports. This paper will analyze TransUnion's financial performance over the past five years using the DuPont Model to examine its profitability, enabling readers without specialized expertise to comprehend it. Moreover, it offers a collection of proposals aimed at revitalizing TransUnion's current status. The annual reports of TransUnion and Equifax are collected from EDGAR, and the

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annual reports of Experian are copied from Experian's websites. All of the data in this paper is calculated based on the annual reports as presented.

2. Literature Review

The DuPont analysis method, known for its simplicity relative to other frameworks such as the Altman Z-score, enables a more accessible understanding, catering even to readers without specialized financial knowledge. Carl B. McGowan employed the DuPont analysis approach to examine Bank Al Bilad's profitability, asset utilization, and leverage, providing a comprehensive analysis of the bank's strengths and weaknesses. Building upon these insights, valuable recommendations for improvement were put forward [2]. However, despite an extensive review of the available literature, there is a dearth of investment of TransUnion based on the DuPont method. All the data presented in this study have been sourced from annual reports disclosed on Edgar and the official company website. In addition, reference has been made to several financial reports based on the DuPont analysis methodology.

3. Financial Analysis of TransUnion Based on DuPont Model

The financial analysis technique known as the DuPont system centers around evaluating return on equity (ROE). This methodology utilizes a formula that breaks down return on equity into three components: net profit margin (NPM), total asset turnover (TAT), and the equity multiplier (EM). The formula is as follows [2]:

$$\text{ROE} = \text{NPM} \times \text{TAT} \times \text{EM} \tag{1}$$

To calculate these four indicators, collecting the basic data from the company's income statement, balance sheet, and cash flow table is necessary. The data presented in Table 1 was collected from Edgar of TransUnion's: [3][4]

Table 1: Financial Data of TransUnion (million dollars) [3][4].

Year / Metric	2022	2021	2020	2019	2018
Net income	270	1387	343	347	277
Revenue	3710	2960	2531	2463	2317
Average total asset	12150	9973	7212	7076	6079
Average shareholder's equity	4137	3321	2487	2160	1903

Next, calculate net profit margin, total asset turnover, and the equity multiplier according to the following formulas, and finally get the return on equity:

$$\text{NPM} = \text{Net Income} / \text{Revenue}$$
$$\text{TAT} = \text{Revenue} / \text{Average Total Asset}$$
$$\text{EM} = \text{Average Total Asset} / \text{Average Shareholder's Equity} \tag{2}$$

Table 2: Financial Metrics of TransUnion.

Year Metric	2022	2021	2020	2019	2018
Net profit Margin	0.07277628	0.468581081	0.13552	0.140885	0.119551
Total Asset Turnover	0.305337229	0.296786484	0.350919	0.348053	0.381117
Equity Multiplier	2.936676737	3.003161698	2.899497	3.275399	3.193853
Return on Equity	0.065256798	0.417645288	0.137889	0.160611	0.145521

The subsequent sections of this paper will delve into a more detailed analysis of the four indicators, as presented in Table 2.

3.1. Analysis of Profitability

The net profit margin reflects the relationship between net income and revenue. A higher net profit margin indicates a company's stronger profitability. Analyzing the net profit margin has a positive effect on improving the product structure [5].

From 2018 to 2020, TransUnion's NPM remained relatively stable. In 2019, there was a 17.8% increase compared to 2018. In 2020, there was a 3.8% decrease compared to 2019. This demonstrates that TransUnion's profitability over the past three years has been quite stable. In 2021, the sale of its healthcare business in Q4 led to an artificially high NPM, which is a 245.8% increase compared to 2020. However, excluding the gains from the sale of the healthcare business, which was worth $982 million, TransUnion's NPM in 2021 was approximately 0.137. Then, compared to 2020, NPM increased by 1.1%, which is almost the same as the previous three years.

Nevertheless, in 2022, the significant cost impact of acquiring other companies caused net income to decline by 33.3%. Despite a 25.3% increase in revenue compared to 2021, the profits from product sales could not keep up with the increase in production costs, resulting in a nearly halved NPM compared to the previous four years, reflecting TransUnion's unhealthy profitability in 2022. Upon observation of TransUnion's revenue in 2022, it was steadily increasing. However, the net income failed to grow but decreased significantly, even lower than that of 2018 by $7 million. This decline in profitability highlights the steep rise in production costs and the urgent need for TransUnion to improve its cost control capability. In comparison, Equifax's NPM was 0.134 and Experian's NPM was 0.185 in the same year, indicating that TransUnion's ability to control costs needs to be strengthened to meet industry standards.

3.2. Analysis of Asset Management Ability

The Total Asset Turnover, which represents the utilization rate of total assets, is the ratio between the average total assets and the main operating revenue of an enterprise during a certain period [6]. TAT is a measure of a company's efficiency in using assets to generate sales. The higher this ratio is, the better the company is.

Table 3: Total Asset Turnover of TransUnion, Equifax, and Experian [7][8][9][10].

Year Companies	2022	2021	2020	2019	2018
TransUnion	0.3053	0.2969	0.3509	0.3481	0.3811
Equifax	0.4535	0.4768	0.4712	0.4658	0.4747
Experian	0.5999	0.5664	0.6098	0.5933	0.5733

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Based on Table 3, TransUnion’s total asset turnover is lower than the industry standard. Over the past five years, TransUnion’s return on investment for the same amount of asset has been 39.2% lower than Equifax’s, and 74.9% lower than Experian’s. This demonstrates that TransUnion’s asset management ability is significantly weaker than that of the other two companies. Meanwhile, from 2018 to 2022, Equifax and Experian’s TAT remained relatively stable, indicating that these two companies did not have significant operating efficiency issues. In contrast, TransUnion’s TAT decreased by nearly 20%, from 0.3811 in 2018 to 0.3053 in 2022.

If examining the changes in TAT of Equifax and Experian over the past five years, the observation shows that both companies have experienced fluctuations within a certain range and the fluctuations did not exceed 8%. However, an analysis of TransUnion’s asset turnover in recent years reveals a gradual decrease. This indicates that TransUnion is facing certain difficulties in its fund turnover and that its cash flow channels are restricted. Although adjustments were made in a timely manner in 2021 by selling the Healthcare business operations, the financial pressure brought by the acquisition of other companies still plagued TransUnion. In comparison to 2021, the asset turnover in 2022 has increased slightly by 2.83%, but the significant financial pressure from acquiring other companies still remains.

3.3. Analysis of Debt Ratio

The equity multiplier reflects the leverage effect of a company, which amplifies the impact of net assets [11]. A higher equity multiplier ratio shows that an institution is relying more heavily on debt financing to obtain funds.

Based on Table 2, TransUnion’s EM remained relatively stable between 2018 and 2022, indicating the company’s solvency is guaranteed. Compared to other companies in the industry, TransUnion’s EM is also reasonable. Upon examination, the EM increased by 2.55% in 2019 compared to 2018, but decreased by 11.48% in 2020 compared to 2019. In 2020, TransUnion optimized its industry structure and reduced its debt ratio, thereby reducing financial risk. However, the lower EM means that the overall profitability of the company has decreased. In 2021 and 2022, TransUnion continued to optimize its investment portfolio through business divestitures and acquisitions, where the EM increased by 3.58% in 2021 compared to the previous year and decreased by 2.21% in 2022. Based on the data of the past five years, the equity multiplier of TransUnion is at a moderate level, which means it won’t bring significant financial pressure to the company while ensuring sufficient profitability.

3.4. Analysis of Return on Equity

The return on equity is the ratio of a company’s net income to its average shareholder equity, which reflects the level of return on shareholder equity and measures the efficiency of a company’s use of its own capital [12].

Table 4: Return on Equity of TransUnion, Equifax, and Experian.

	2022	2021	2020	2019	2018
Transunion	0.065257	0.417645	0.137889	0.160611	0.145521
Euqifax	0.181146	0.21847	0.178296	-0.1329	0.097263
Experian	0.326972	0.297407	0.282723	0.279229	0.304966

Due to the sale of healthcare businesses in 2021, there was a significant increase in net income, causing ROE to be artificially high in that year, just like NPM. If excluding the profits generated from the sale of businesses, the ROE for 2021 is approximately 0.122. By replacing the data in Table 4, in comparison to 2018, the ROE of TransUnion increased by 10.3% in 2019. In 2020 and 2021, although it showed a descending trend, the decrease was not more than 15%. However, in 2022, the return on equity was nearly halved, indicating that TransUnion exhibits a pronounced weakness in converting its assets into profits.

Compared with industry leader Experian, TransUnion still has a significant gap to bridge. From 2018 to 2021, TransUnion's ROE was only half of Experian's, and in 2022, it was even only one-fifth. While compared with Equifax, although TransUnion was in a leading position between 2018 and 2019, Equifax made timely adjustments and surpassed TransUnion between 2020 and 2022.

4. Conclusion

By applying the DuPont Method to analyze TransUnion's financial data from 2018 to 2022, it becomes apparent that the company's overall financial situation experienced a decline in 2021. This decline can be attributed to the impact of the acquisition of a company and the sale of the healthcare business during that year. Although the total asset turnover and equity multiplier are relatively stable, the net income not only did not keep up with the rapid growth of equity but also showed a certain decline, which indicates that the company's profitability was not particularly robust. Furthermore, its asset turnover rate was below average for the industry, underscoring the need for TransUnion to address management issues and improve the efficiency of its capital utilization. A positive aspect is that TransUnion's debt ratio is at a moderate level. Transunion can continue to make adjustments in the following areas to enhance its competitiveness: The first is to control costs and expenses. The acquisition of the company in 2021 still requires business integration and adjustment. After systematic restructuring, costs will certainly decrease, and the resulting revenue will demonstrate its effectiveness, leading to an increase in net income. Secondly, adjust the management capabilities at all levels of the company. TransUnion needs to strengthen communication and coordination among its departments. When the marketing department receives orders, it should promptly report the business line information to the IT department, quickly access data sources, and produce credit reports, thereby improving the efficiency of the entire production chain. At the same time, it is essential to coordinate the new employees of the acquired company and effectively utilize the purchased assets to quickly increase revenue. The third piece of advice is to keep the equity multiplier level. Maintaining a healthy EM within the industry range will not bring heavy debt to the company or reduce its profitability. Certainly, it is essential to acknowledge the limitations of this study. Future studies can focus on exploring additional factors beyond portfolio changes and incorporate a broader range of variables for a more comprehensive analysis.

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