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BLACK KNIGHT®
FINANCIAL SERVICES

December 2017

History

History

2006, FNF spun off Fidelity National Information Services (FIS)

2008, FIS spun off Lender Processing Services (LPS)

2010, LPS was at center of 'robo-signing' scandal, fraudulently signing and notarizing mortgage related documents

2014, FNF re-acquired LPS for $2.9b and reorganized into Black Knight with THL owning 35%

2015, Black Knight IPOs BKFS

2017, FNF spins off ownership of BKFS

2017, BKFS reorganizes into BKI

	Pre-Transaction		*Post-Transaction*	
Owner	**Shares (mm)**	**% Ownership**	**Shares (mm)**	**% Ownership**
THL Ownership	33.8	*22 %*	35.1	*23 %*
Other Public Owners	35.1	*23*	118.4	*77*
Total Class A Shares	**68.9**	***45***	**153.5**	***100***
FNF Class B Shares	83.3	*54*	-	-
Other Class B Shares	1.3	*1*	-	-
Total Class B Shares	**84.6**	***55***	-	-
Total Shares Outstanding	**153.5**	***100 %***	**153.5**	***100 %***

Investment Thesis

Recommendation: 2% position

Price Target: $55.00

Market Cap: $6.9b

No Dividend

Thesis

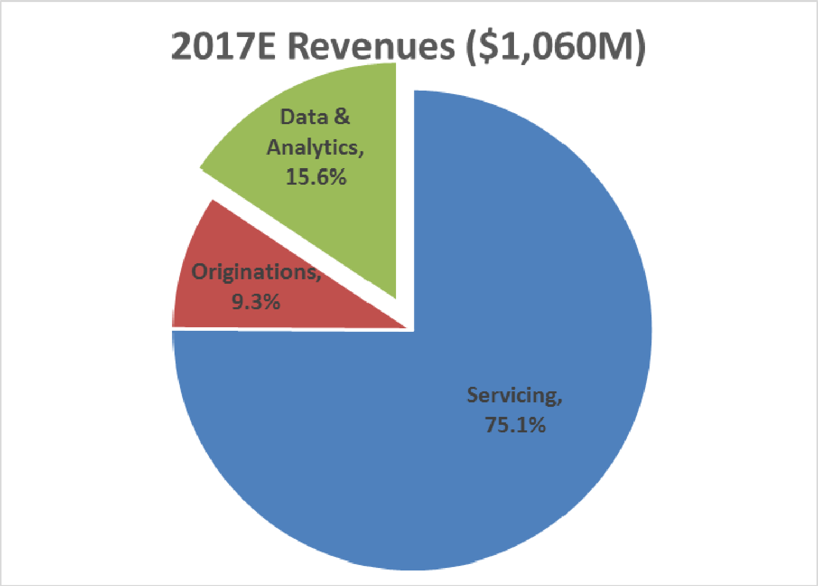
- Black Knight is the industry leader with over 70% of the mortgage servicing industry using their software.
- Stable business with 80% recurring revenues
- High returns on capital
- High single digit revenue growth
- Double digit EBITDA growth

Company Description

Black Knight (BKI) is a Fintech company that provides software to companies who service and issue mortgages. BKI is an industry leader serving 52% of all mortgage loans and 62% of first lien loans. They serve 34 of the top 50 servicing companies and 29 of the top 50 mortgage issuers. BKI has an addressable market of $2.8b given their current products and services.

BKI has attractive revenue characteristics with 80% recurring revenue. Contracts are long-lived and based on loans outstanding, transactions or minimums. Revenue has grown 9% since 2015 and current pipeline is robust. Company has low revenue exposure to cyclicality of mortgage issuance (~10%).

BKI operate in two segments – Technology Services and Data & Analytics. Technology Services accounts for 82% of revenues and includes mortgage servicing and origination. Mortgage servicing is the crown jewel at 71% of firm total revenues. Origination accounts for 14% of total revenues. The Data & Analytics segment sells real estate analysis and data to banks, brokers, credit bureaus and servicers, accounting for 18% of revenue.



Segments

		% 2014 Revenue		Description	Key Brands/ Products	Incremental Revenue Opportunity	Revenue Drivers	Revenue Model	End Market	Primary Competitors	Acquisitions/ Predecessors
Technology Services - 82% of Rev	Servicing	71%	57%*	Loan servicing platform for 1st and 2nd lien mortgages	Mortgage Servicing Package (MSP)	$980MM	Total active loans on system	Pay per loan for base processing + per transaction/ Subscription under 3-5 yr contracts (built-in price increases)	Bank & non-bank mortgage servicers	Fiserv	LPS Servicing Technology
			14%*	Specialty Servicing -- workflow & process automation for problem loans	LoanSphere Foreclosure LoanSphere Bankruptcy LoanSphere Invoicing	$300MM	Foreclosure referrals; 3rd party invoices; Total active loans	Transaction or per loan	Bank & non-bank mortgage servicers; law firms	CoreLogic, Fiserv	LPS Default Technology, FNF Commerce Velocity
	Origination	11%		Retail + Wholesale loan originations + lead mgt	Empower LOS, SalesEdge®	$800MM	US mortgage originations (though minimums reduce correlation)	Per closed loan with minimum (hosting option)	Bank & non-bank originators	EllieMae, CoreLogic	LPS Origination Technology
				Correspondent lending platform	LendingSpace LOS			Per closed loan with minimum (hosting option)		CoreLogic	
				Workflow solution	Quality Insight®, Valuation Insight®, Closing Insight ™			License, maintenance & per loan with minimums		EllieMae	
				Fully-integrated loan origination exchange	RealEC Exchange			Transactional based on order type		EllieMae, niche players	
Data & Analytics - 18% of Rev	Real Estate Products	12%*		Property Products: Residential property data & analytics, property look-ups, MLS data, bulk data sales, lead gen	Insight Title Point, Vantage Point, Insight Xpress Services, PTD Plus, PTD Shield, PTD Tax Payment Calculator, SiteXData	$700MM	Licensing for platform/ commercial software; feed count based on # of brokers & realtors	50% Transactional/ 50% Subscription	Real estate agents & brokers, large online real-estate services, title companies, credit bureaus	CoreLogic	FNF Property Insight: Hansen Quality Loan Service (2004), International Data Management (2001)
	Loan Products	6%*		Loan Products: Property & mortgage performance data; automated valuation models (AVM), behavioral & default models	McDash™ Core Database, LoanSphere Data Hub		Licensing based on use restrictions, transaction volumes, head count changes	50% Transactional/ 50% Subscription	Bank & non-bank originators and servicers	CoreLogic	LPS Data & Analytics, LPS Applied Analytics: McDash Analytics (2008), Applied Financial Technology (2007)

*Note: Wells Fargo Securities estimates

Industry Drivers

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Trend towards outsourcing

- Rising Costs: Post crisis mortgage servicing costs have been rising: From 2008 to 2013 servicing costs have increased from $59 to $156 per loan.
- Costs of non-performing loan has risen from $482 to $2,357 per loan over the same time period.
- Increased Regulatory Risk: Post financial crisis US Government has imposed significant new regulations on the US banking industry. Truth in Lending Act and Real Estate Settlement Procedure Act have increased reporting and documentation requirements
- Increased use of automation
- Increased use of data and analytics

US Mortgage Industry stats

- Large, mature and cyclical market consisting of $9.9t of existing loans. First liens total $9.2t and number 50m. HELOC loans total $700b. Total value of first-lien mortgage have been very stable.
- Top 10 originators account for 53% of origination volume

About Black Knight - Industry leader

>50%
of all Mortgages on MSP

34 New Software Clients
Over the Last 5 Years

34 of Top 50
Servicers are Clients[1]

29 of Top 50
Lenders are Clients[1]

5 – 7 Years
Typical Length of Contracts

9%
Adjusted Revenues CAGR Since IPO[2]

Momentum Since IPO

	At IPO[1]	Today[2]
LoanSphere® MSP® Market Share[3]	45%	50% *+ 5pts*
Enterprise Clients	8	10 + 4 Signed *+ 75%*
Adjusted EBITDA Margin	42.7%	47.0%[4] *+430bps*
Share Price	$24.50	$44.15[5] *+ 80%*

Significant Sold Pipeline: Incremental Annual Run-Rate of ~$130mm Over the Next 3 Years

Characteristics - Defense

- Mission critical software
- High recurring revenues over 80%
- Long term contracts
- Revenue based on outstanding loans and issuance with minimums
- Strong cash flow
- Market leader
- Sales growth uncorrelated to origination volumes – 2012 to 2014 originations fell 10% while total sales increased 20%.
- High switching costs

Characteristics		Benefits
Hosted SaaS solutions	→	Economies-of-scale benefits
Long-term contracts	→	Significant recurring revenues
Volume-based pricing with minimums; annual escalators; pricing power	→	Embedded volume and pricing growth
Mission-critical solutions	→	Deep, long-term relationships

Characteristics - Offense

History of increasing sales

$2.8b addressable market

Scalable business with increasing margins

Asset light business

High margins

Potential to expand into new markets

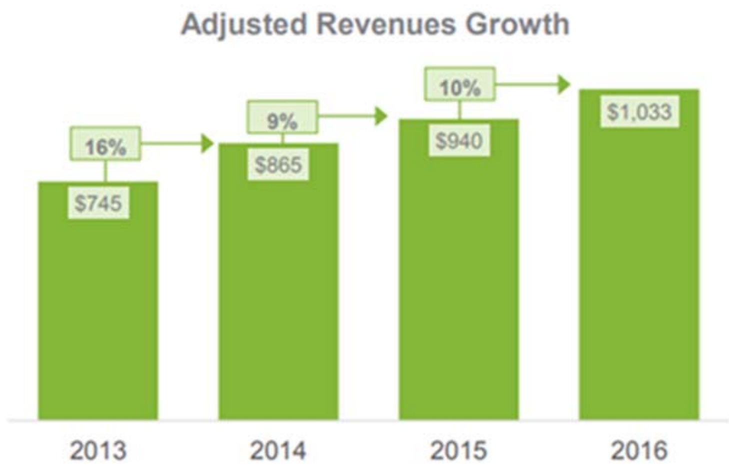
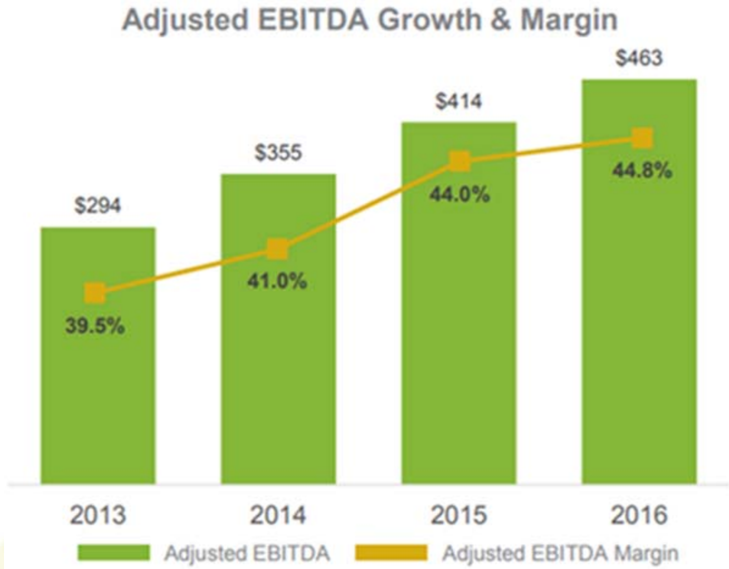
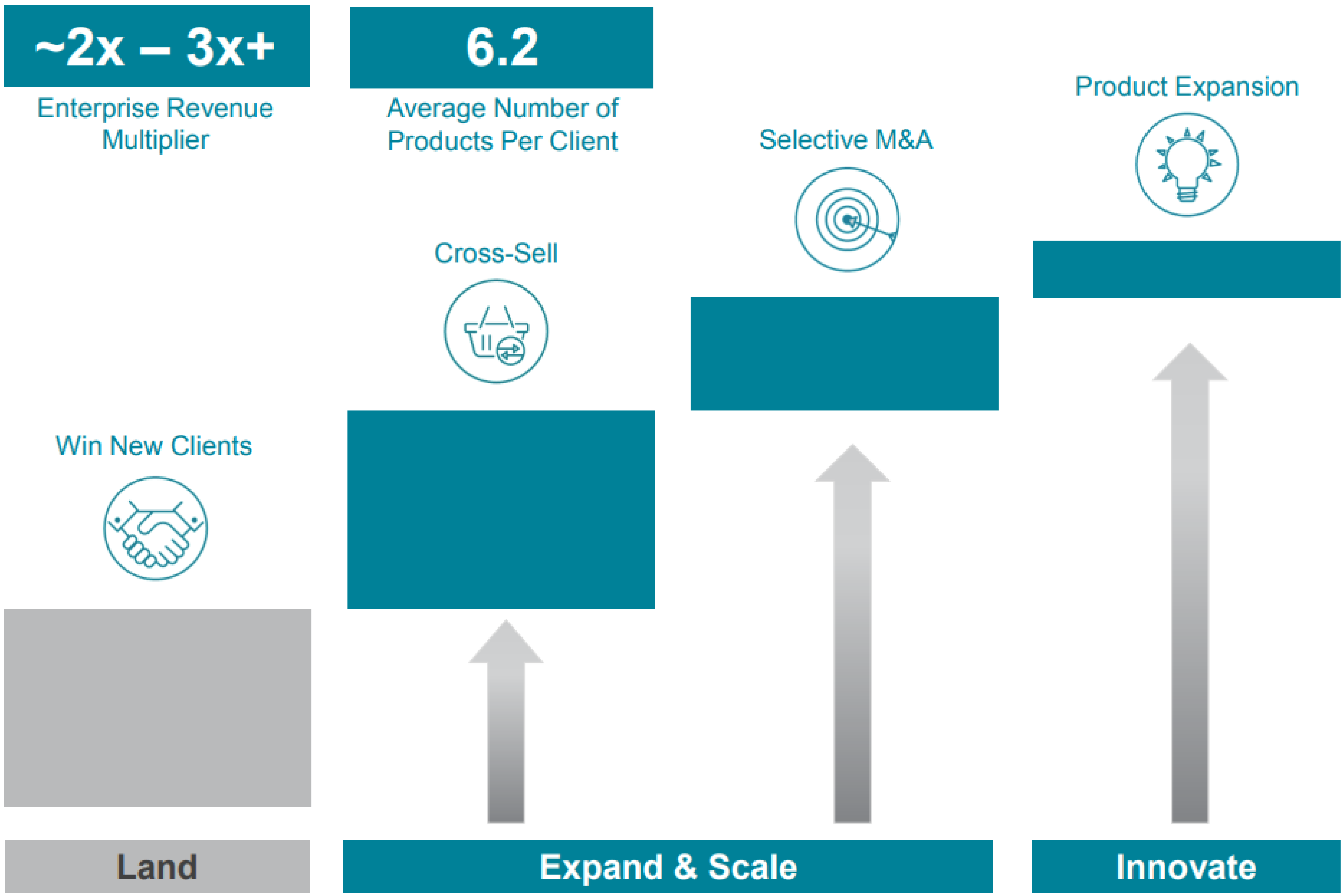


Figure 3: BKFS Addressable Market: Existing Products

Source: Company reports.



Growth Strategy



Client wins support near-term growth

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Servicing

- Ocwen first mortgages
- Chase home equity
- PNC home equity
- Bank of America first mortgages
- Wells Fargo home equity

Bank of America is a big win with the potential to add 8% to sales. Ocwen announced in November can add up to 2.5% to sales;

New clients take 9-15 months to generate sales recognition

Origination

- Fifth Third implementing LendingSpace and Foreclosure
- PNC converting first and second loans to Empower
- Santander implementing Empower

#	Company Name	Location	2014Q3 Total Volume (dollar)	2014Q3 Total Number of Loans Serviced (number)	2014Q3 Regular Servicing Volume (dollar)
1	Wells Fargo & Company	San Francisco, CA	$ 1,777,193	11,181,947	$ 1,772,261
2	Chase	Iselin, NJ	$ 963,430	6,638,836	$ 963,430
3	Bank of America	Charlotte, NC	$ 721,832	5,485,912	$ 716,875
4	Nationstar Mortgage	Lewisville, TX	$ 377,785	2,224,911	$ 359,380
5	CitiMortgage, Inc.	O'Fallon, MO	$ 338,403	2,392,992	$ 338,403
6	U.S. Bank Home Mortgage	Bloomington, MN	$ 289,513	1,874,362	$ 287,308
7	Walter Investment Management Corp.	Tampa, FL	$ 246,964	2,278,060	$ 183,741
8	Ocwen Loan Servicing	West Palm Beach, FL	$ 239,204	1,465,647	$ 201,240
9	PHH Mortgage	Mt. Laurel, NJ	$ 226,036	1,164,383	$ 120,868
10	Cenlar	Ewing, NJ	$ 217,885	1,130,170	N/A

Capital Allocation

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Continue to Invest in the Business

- Product development and implementation resources
- Critical infrastructure (e.g. hardware for hosting, information security)

Repay Debt

- Target leverage of approximately 3.0x
- Maintain ample liquidity

Pursue Targeted Acquisitions

- Small size, product-focused, tuck-in acquisitions

Return Cash to Shareholders

- Opportunistic share repurchases

Black Knight is authorized to buy back 10m of its shares. They have purchased 1.2m shares.

Long term guidance

Revenues and Adjusted Revenues Growth	6 – 8%
Adjusted EBITDA Margin Expansion	+ 50 – 100 bps per year
Adjusted EPS Growth	Mid-teens
Target Leverage	~ 3.0x

Debt

($ in Millions)	As of 6/30/17	Maturity	Interest Rate
Cash and Cash Equivalents	$99		
Revolver ($500mm)	150	2022	LIBOR + 175bps
Term A Loan	1,030	2022	LIBOR + 175bps
Term B Loan	392	2022	LIBOR + 225bps / 75bps floor
Total Long-term Debt[1]	**$1,572**		
Capital Lease Obligation	4	2017	0.00%
Total Debt	**$1,576**		
Net Debt	**$1,477**		
LTM (Jun) 2017 Adjusted EBITDA[2]	$482		
Total Debt / LTM (Jun) 2017 Adjusted EBITDA	3.3x		
Net Debt / LTM (Jun) 2017 Adjusted EBITDA	3.1x		

Free Cash Flow Valuation

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2017	2018	2019	2020	2021	2022	2023
271.3	344.9	415.5	454.5	443.3	441.1	437.0

Terminal Growth	4.0%
Discount rate	7.5%
Term Value	7,694.7
Enterprise Value	9,758.1
Net Debt	1,443.4
Market Cap	8,314.7
Shares	153.5
Price	$ 54.17

Concerns

- Client concentration – Top five relationships account for 37% of revenues with WFC and JPM representing 13% and 12%, respectively.
- Model and valuation has a lot of assumption and short history
- Sales growth requires client wins – COLA accounts for ~1% revenue growth
- Consolidation in client markets
- Slowdown in origination – economic downturn
- Growth of non-bank lenders like Quicken Loans. Top 5 banks in Mortgage servicing have seen market share fall from 42% in 2016 to 37% in 2017.
- THL holdings could represent supply