Ted Bealin | TBealin17@gsb.columbia.edu

Summary Thesis: FNF is the clear leader in a structurally advantaged industry. Earnings growth is likely to flatten in 2017 as rising mortgage rates weigh on mortgage refinancing volume. However, continued expansion in FNF's higher margin home purchase business could more than double earnings over the next 4-5 years. In addition, FNF will simplify its corporate structure later this year, unlocking significant dry powder for the Company to re-invest in the business or repurchase shares.

Company Overview: Fidelity National Financial ("FNF," the "Company") is the largest title insurance provider in the United States. The Company also provides related escrow and transaction services. FNF owns a 55% stake in a separate publicly-traded company, Black Knight ("BKFS"), which provides mortgage servicing technology. This write-up focuses on the core title insurance business, as FNF plans to spin-off the BKFS stake by the third quarter of 2017.

Capitalization & Valuation	
FNF Share Price (5/4/17)	$40.69
F/D Shares Outstanding (MM)	281.0
FNF Market Cap	$11,434
BKFS Share Price (5/4/17)	$41.80
F/D Shares Outstanding (MM)	153.9
BKFS Market Cap	$6,434
x % FNF Ownership	55.0%
Value of FNF Stake in BKFS	$3,539
Per share value of BKFS stake	$12.59
FNF share value, net of BKFS stake	$28.10
/ 2017E Core FNF EPS (ex-BKFS)	$2.10
Implied P/E of Core FNF (ex-BKFS)	**13.4x**

Trading Statistics	
Dividend / Yield	$1.00 / 2.5%
Avg. Daily Volume (MM Shares / $MM)	1.2 / $48

Title Insurance Overview: Title insurance is an essential part of U.S. real estate transactions. It assures clear property rights for home buyers and mortgage lenders. Unlike most forms of insurance, title focuses on risk prevention, not risk assumption. Prior to the closing of a transaction, the title insurer or its agent will examine the public record for defects related to the property description, historical chain of title, undischarged mortgages, property taxes, or municipal permits. The title insurer will then provide a report, assist in curing any defects, and issue a policy covering any further deficiencies.

Title insurance is issued both directly and through independent agents. Agents predominate in the eastern U.S., while the industry developed using a direct model in the west. Title insurance is a highly local business, predicated on community relationships, state-level real property laws, and county or municipal recordation practices.

1. A Cooperative Oligopoly

Title insurance may be the best business you've never heard of. The industry likely hopes to keep it that way:

> *"We haven't had a lot of interest from our regulators over the years"* – Thomas DeCaro, President of Benchmark Title Agency speaking before the State of New York Department Of Financial Services hearing on title insurance, December 10, 2013.

The title insurance market is highly concentrated. Four players write nearly 90% of premiums nationwide. A byzantine framework of state regulations effectively limits price competition, and FNF earns a double-digit ROE through all but the very bottom of the cycle.

One of the keys to understanding the quality of FNF's title business is a market dynamic known as reverse competition. Residential home buyers typically don't choose their title insurance provider. They instead rely on a recommendation from their realtor, lender, or attorney. Title fees also represent a small component of a large, complex transaction. As a result, competition for market share is much more focused on gaining intermediary relationships than cutting prices.

Pricing is regulated at the state level. Of the 50 states and D.C., 21 require rates to be filed before use, 16 require state approval, 4 set rates directly, and 10 have no price regulation. The 41 regulated states all provide a framework by which rates are either set or publically declared before use. Even where price reductions are possible, insurers have no real incentive to deviate from established prices. In a reverse competitive market, price cuts likely won't lead to share gains.

Case Study: New Mexico

In New Mexico, rates are set and promulgated by the state regulator. In 2009, New Mexico passed House Bill 488, allowing title insurers to voluntarily offer lower rates. Last year, over 200,000 title insurance policies were written in New Mexico. According to state regulatory filings, zero deviated from the maximum allowed pricing.

Title insurers will compete for market share by spending on marketing or agent commissions, but the industry structure defends against destructive, incremental pricing pressure. Title companies can also raise rates over time in less perceptible ways. For example, they may add small incremental surcharges for additional searches or complex work performed. In addition, regulated rates are typically linked to home prices, allowing natural inflation over time.

2. Industry Leader with Capacity to Reinvest

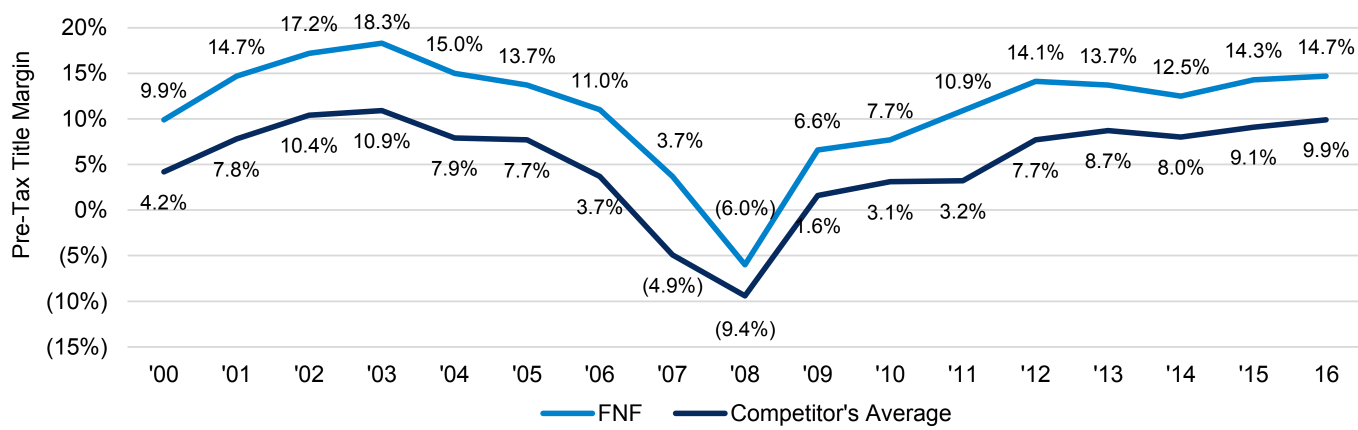
FNF is well known as the most efficient operator in the industry. The Company has maintained better margins than peers for decades (see Exhibit 1). FNF leverages its fixed costs over the largest scale in the industry. The Company holds 33% national market share and is #1 or #2 in 43 states. In addition, FNF's competitors pay an average of 3-6% more in agent commissions. Discussions with title agents indicate that FNF retains underwriting business from agents despite paying slightly lower commissions by providing access to data, assistance with state-level licensing, and other business development opportunities to agencies.

> *"We never want the perception that we favor one underwriter over another. One thing I always look at is 'What is the source of my data?' I've never made those decisions [which underwriter to use] based on dollars, I've always made them based on the overall relationship."* – CEO, national title insurance agency

The real driver of FNF's margin outperformance, however, is its extreme headcount discipline relative to order volume. FNF uses a flexible workforce to scale up or down through the cycle. Field offices make immediate staffing decisions on a weekly basis, based on the backlog of actual orders, not market forecasts.

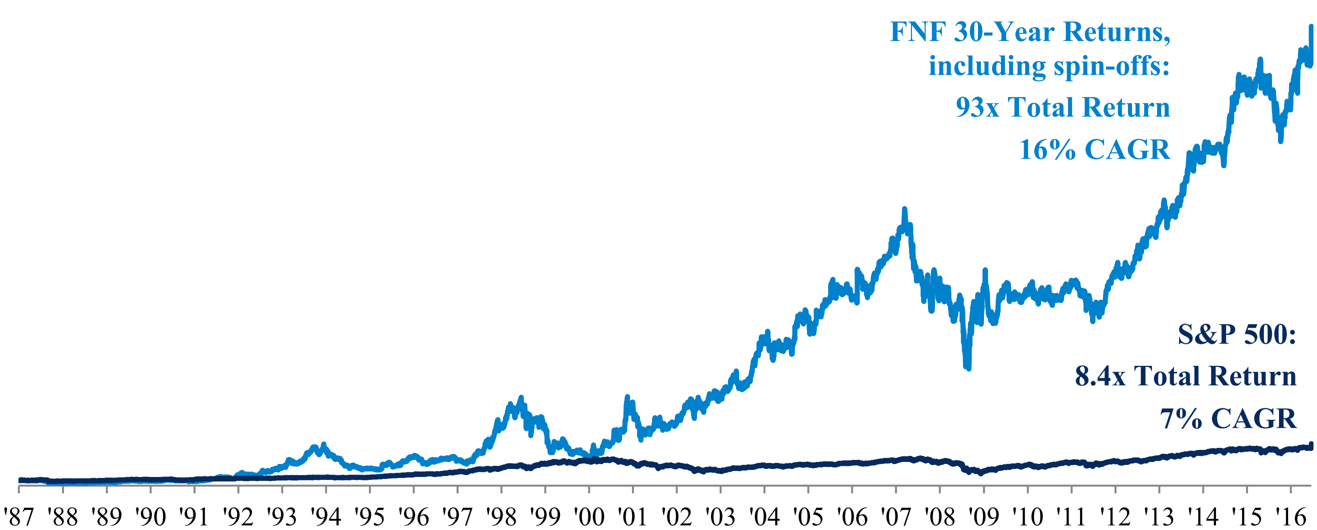
> *"We've done it this way for 30 years, ever since Bill Foley's been in charge."* - Dan Murphy, SVP & Treasurer

Exhibit 1: Margin Outperformance through Cycles



The current incarnation of FNF dates back to a 1984 buyout of the Company led by Chairman Bill Foley. The West Point graduate and former corporate attorney built FNF through an estimated 80 add-on acquisitions. This string of deals culminated with FNF, the #4 player at the time, acquiring the much larger Chicago Title in 2000 to reach its current #1 position. Over the last 25 years, FNF grew pre-tax title income at a rate of 22% per year, over 100x in total.

Exhibit 2: FNF Historical Returns under Bill Foley, 1987-2017



Source: *CapIQ, Company Filings. FNF returns include adjustments for the following transactions: 2005 special dividend and initial distribution of Fidelity National Title, 2006 corporate reorg / spin-off of FIS, FIS 2008 spin-off of LPS, FNF 2014 distribution of FNFV tracking stock, FNFV distributions of REMY and JAX.*

Foley also has a long track record of successful capital allocation. Including multiple spin-offs and corporate reorganization transactions, FNF stock has compounded at 16% since going public in 1987, a total return of over 90x compared to the S&P 500's 7% annual and 8.4x total increase. One of the keys to FNF's returns is the Company's use of regulatory capital reserves to fund opportunistic investments. As one example, FNF built an information services business, Fidelity National Information Services (NYSE:FIS) that was spun-off in 2006. After its own series of deals, FIS is now a $36Bn enterprise. During the recession, FNF made several distressed credit-related investments that ultimately grew into a sizable independent portfolio. At the recommendation of shareholders, FNF distributed these holdings as a separate tracking stock, Fidelity National Financial Ventures (NYSE:FNFV) in 2014.

Over the past several years, FNF unlocked significant value through the 2014 tracking stock listing and a partial IPO of BKFS in 2015. Nonetheless, FNF continues to consolidate BKFS for reporting purposes, due to its majority ownership. Consolidating this higher growth, higher multiple business caused FNF to screen at a superficially higher multiple, and left its market-leading title franchise valued at a discount to peers. In December 2016, FNF announced its intention to distribute its remaining ownership of BKFS in a tax-free spin-off to be completed by Q3 2017. Since the spin-off announcement, FNF shares have rallied 26% vs. 8% for the S&P 500, effectively eliminated FNF's sum-of-the-parts discount to its title insurance peers.

Despite the recent rally, two additional catalysts remain for the shares following the Q3 spin. First, FNF will eliminate its current tracking stock structure and FNF, FNFV, and BKFS will all be independent, fully-distributed, publicly-traded common stocks. This means that FNF will become eligible for index inclusion in the S&P Midcap 400 and potentially the S&P 500. Additionally, FNF recently freed up $280MM of newly unrestricted cash by re-domiciling three insurance subsidiaries. After the spin-off, FNF will also have an estimated $365 of additional borrowing capacity to reach its consolidated debt-to-capital ratio target of 25%. With this additional liquidity, FNF could repurchase nearly 10% of its market cap follow the spin. Even more interestingly, Bill Foley has a number of priorities for re-investing the new-found liquidity in the business, including highly accretive acquisitions of title agents (see quote below) and investing in process automation to further improve FNF's margin expansion.

> *"Normally, the agents that we are buying are underwritten by multiple underwriters. When we acquire the agent, the other underwriters are displaced. So it increases our national market share in that way. And it hurts the other underwriters. So it's kind of a perfect storm is a good way to use our cash. And we're buying these companies at 4 to 5x EBITDA. So it's fairly low risk."* – Bill Foley, FNF CEO Q1 2017 Earnings Call

3. Structural Tailwinds Driving Earnings Growth

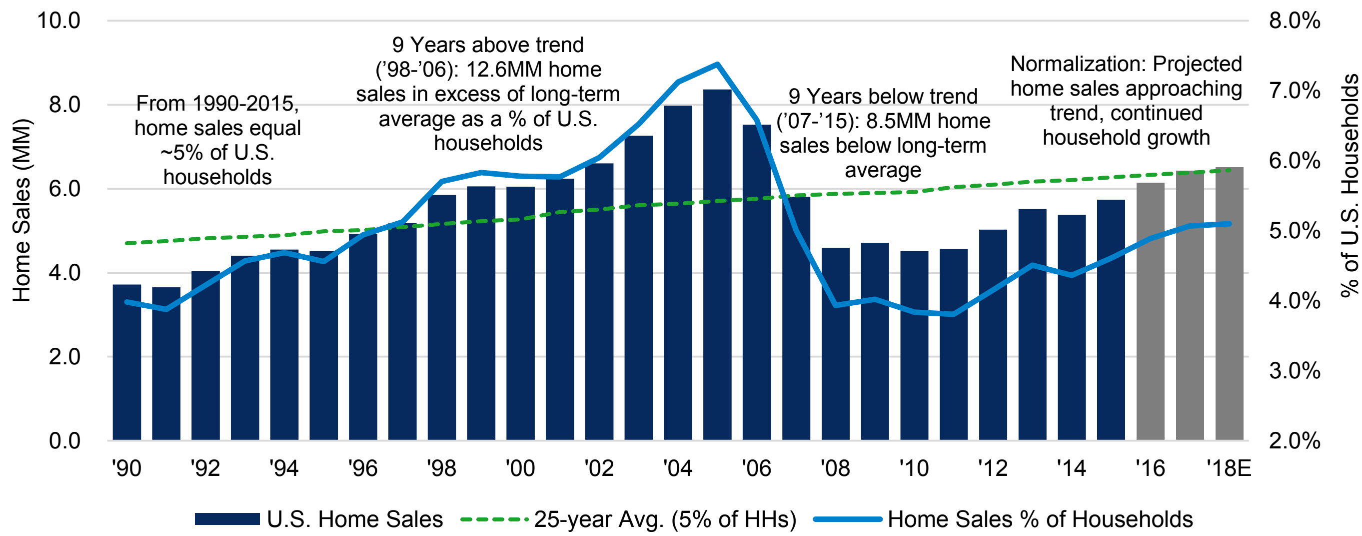
Title policies are required for both home purchase and mortgage refinancing transactions. In recent years, low rates and a prolonged housing recovery led to a market dominated by refinancings. Nearly half of FNF's 2015 orders were refis. However, title insurers generate roughly twice as much revenue on a purchase transaction vs. a refi. While commissions and losses are variable with premiums, personnel expenses will remain largely fixed at higher fees. As a result, an incremental purchase transaction contributes nearly 3x the $ profit at almost 50% higher unit margins compared to a refinancing transaction.

Exhibit 3: Illustrative Unit Economics – Refinancing vs. Purchase

	Refinancing	Purchase	Comments
Title Premium	$1,000	$2,000	FNF earns ~2x on a purchase, in part because both homeowner & lender policies are required
Escrow & Other Revenue	511	1,022	Includes escrow and other transaction-related services
Total Title Revenue	**$1,511**	**$3,022**	
Personnel Costs	534	801	Based on illustrative assumption that a purchase requires ~50% higher personnel expenses
% of Revenue	*35.3%*	*26.5%*	Purchases do require more labor than refis, but almost certainly less than twice as much
Agent Commissions	610	1,220	Variable expense as a % of Agency premiums
Agency % of Premiums	*53.1%*	*53.1%*	Dependent on the mix of agency vs. direct business
Agent Commission %	*76.0%*	*76.0%*	
Provision for Losses	57	115	Variable expense as a % of premium written
% of Premium	*5.7%*	*5.7%*	
Unit Contribution	**$309**	**$886**	Unit Contribution, prior to Corporate operating expenses
% Margin	**20.5%**	**29.3%**	***Purchase transactions carry nearly 50% higher incremental margins than refinancings***

Rising interest rates will be a headwind to continued refi volumes. However, several structural dynamics support a continued multi-year recovery in home sales. First, despite a multi-year recovery coming out of the recession, annual home sale volumes remain substantially below their full-cycle average relative to U.S. households (see Ex. 4 below).

Exhibit 4: U.S. Home Sales Cycle



Latent demand from changing demographics may hold the key to lifting sale volumes back to historical trends. The 92 million millennials aged 15-35 are the largest generation in U.S. history. Much of this group reached adulthood in the depths of the Great Recession, when unemployment for 20-24 year olds reached over 17%. It has now fallen to 8%, but 32% of 18-34 year olds still live with their parents. 30 years old is the median marriage age and the age of peak birth rates. Nearly 23 million millennials will turn 30 in the next 5 years. Over 80% of married couples live in single-family homes.

Even with a substantial drop-off in refinancing volume beginning this year, the continued recovery in home sale transactions will keep total volume relatively flat. However, the mix of purchases to refis could reach nearly 80/20 vs. the current 55/45. At substantially higher contribution margins, the increased purchase volume will have a growth-on-growth impact to FNF's earnings. Margins could comfortably expand to the high teens in a reasonable scenario, more than doubling EPS over the next 4-5 years (see Exhibit 5).

Why Does the Opportunity Exist?

The primary reason the opportunity exists today is the overhang of rising interest rates. FNF benefitted significantly from the boom in mortgage refinancings in recent years. Rising rates will be a near-term earnings headwind as refinancing volume slows this year. In addition, FNF's complex corporate structure has obscured the fundamental value of the title business and complicated the story for new investors.

Current uncertainty and complexity are creating the opportunity to own an exceptional business at an attractive absolute and relative valuation. Following the BKFS spin-off in Q3, FNF will have the immediate opportunity to put additional capital to work. I also expect FNF to unlock additional value as it realizes normalized earnings power over the next several years.

Price Target / Conclusion

Over the next 5 years, I expect FNF's EPS from title insurance (excluding BKFS) to more than double. The primary earnings growth driver is continued home sales growth and resulting high incremental margins discussed above and outline in Exhibit 5 below. Assuming FNF's title business ultimately trades at a reasonable historical multiple of 14x, the title business will be worth over $60 per share vs. about $28 today (ex-BKFS). This represents 120% gross upside over the five year period and an IRR of roughly 20% including dividends.

Exhibit 5: FNF Base Case Financial Projections (Excluding BKFS)

($ MM)	2012	2013	2014	2015	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E
U.S. Mortgage Volume														
Total Mortgage Orig. - Purchase ($ Bn)	588	734	759	916	1,014	212	316	312	241	1,081	1,178	1,245	1,370	1,438
Total Mortgage Orig. - Refi ($ Bn)	1,456	1,111	502	795	949	105	105	100	100	410	410	395	395	395
Total Mortgage Originations ($ Bn)	$2,044	$1,845	$1,261	$1,711	$1,963	$317	$421	$412	$341	$1,491	$1,588	$1,640	$1,765	$1,833
FNF Operating Metrics														
Total Closed Orders - Direct (000s)	1,867	1,708	1,319	1,472	1,575	334	412	405	357	1,509	1,572	1,611	1,705	1,756
Residential Fee per File	N/A	N/A	N/A	$1,505	$1,586	$1,623	$1,799	$1,806	$1,754	$1,749	$1,830	$1,904	$1,980	$2,049
Purchase % of Closed Orders	36.0%	55.1%	67.8%	54.6%	58.9%	63.0%	75.1%	75.7%	70.7%	72.5%	74.2%	75.9%	77.6%	78.5%
Refi % of Closed Orders	64.0%	44.9%	32.2%	45.4%	41.1%	37.0%	24.9%	24.3%	29.3%	27.5%	25.8%	24.1%	22.4%	21.5%
Income Statement														
Direct Title Premiums	$1,732	$1,800	$1,727	$2,009	$2,097	$422	$616	$601	$541	$2,180	$2,376	$2,490	$2,685	$2,822
Agency Title Premiums	2,101	2,352	1,944	2,277	2,626	530	785	771	620	2,705	2,664	2,862	3,202	3,443
Escrow, Title-Related & Other (Ex. BKFS)	1,613	1,597	1,855	2,190	2,352	499	714	699	592	2,505	2,571	2,729	3,002	3,195
Interest, Investment Income & Other	185	194	112	132	118	26	37	26	32	121	124	128	132	136
Total Revenue (Ex. BKFS)	**$5,631**	**$5,943**	**$5,638**	**$6,608**	**$7,193**	**$1,477**	**$2,152**	**$2,097**	**$1,784**	**$7,510**	**$7,736**	**$8,209**	**$9,021**	**$9,596**
% Growth		*5.5%*	*(5.1%)*	*17.2%*	*8.9%*	*0.0%*	*14.6%*	*8.6%*	*(6.4%)*	*4.4%*	*3.0%*	*6.1%*	*9.9%*	*6.4%*
Personnel Costs	$1,738	$1,845	$1,896	$2,132	$2,272	$518	$646	$629	$589	$2,381	$2,475	$2,586	$2,706	$2,783
Agent Commissions	1,600	1,789	1,471	1,731	1,998	402	596	586	471	2,055	2,025	2,175	2,434	2,616
Other Operating Expenses	1,216	1,226	1,383	1,553	1,640	364	473	461	410	1,709	1,779	1,806	1,804	1,823
Provision for Title Claim Losses	279	291	228	246	157	52	70	69	58	249	277	321	353	376
Depreciation & Amortization	68	68	148	151	161	37	38	41	45	161	161	161	161	161
Operating Income	$730	$724	$512	$795	$965	$104	$329	$311	$211	$955	$1,018	$1,160	$1,563	$1,837
Interest expense	61	68	91	72	62	15	16	15	16	62	62	62	62	62
Pre-Tax Income	$669	$656	$421	$723	$903	$89	$313	$296	$195	$893	$956	$1,098	$1,501	$1,775
% Pre-Tax Margin	*11.9%*	*11.0%*	*7.5%*	*10.9%*	*12.6%*	*6.0%*	*14.5%*	*14.1%*	*10.9%*	*11.9%*	*12.4%*	*13.4%*	*16.6%*	*18.5%*
Tax Expense	230	237	169	275	331	36	119	113	74	341	363	417	570	674
Equity Income & Non-Controlling Int.	12	9	45	16	20	5	8	1	6	20	20	20	20	20
Adjustments	22	43	67	37	2	13	-	-	-	13	-	-	-	-
Adj. Net Income (Ex. BKFS)	**$473**	**$471**	**$364**	**$501**	**$594**	**$71**	**$202**	**$185**	**$127**	**$584**	**$613**	**$701**	**$950**	**$1,120**
Adj. EPS (Ex. BKFS)	**$2.09**	**$2.01**	**$1.28**	**$1.75**	**$2.12**	**$0.25**	**$0.73**	**$0.66**	**$0.46**	**$2.10**	**$2.23**	**$2.60**	**$3.59**	**$4.31**
F/D avg. Share Count	226	235	284	286	280	281	278	278	278	279	275	270	265	260
Expense Drivers														
Personnel Costs % of Revenue	30.9%	31.0%	33.6%	32.3%	31.6%	35.1%	30.0%	30.0%	33.0%	31.7%	32.0%	31.5%	30.0%	29.0%
Agent Commissions % of Agency Rev.	76.2%	76.1%	75.7%	76.0%	76.1%	75.8%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Other Operating Expenses % of Revenue	21.6%	20.6%	24.5%	23.5%	22.8%	24.6%	22.0%	22.0%	23.0%	22.8%	23.0%	22.0%	20.0%	19.0%
Provision for Title Claim Losses % of Premiur	7.3%	7.0%	6.2%	5.7%	3.3%	5.5%	5.0%	5.0%	5.0%	5.1%	5.5%	6.0%	6.0%	6.0%
Tax Rate	34.4%	36.1%	40.1%	38.0%	36.7%	40.4%	38.0%	38.0%	38.0%	38.2%	38.0%	38.0%	38.0%	38.0%

Exhibit 6: Title Volume & Regulation by State

#	State	2015 U.S Premiums	% of Total	Premium Regulation
1	Texas	1,875,237,414	14.6%	Promulgation
2	California	1,625,771,157	12.7%	File & Use
3	Florida	1,256,960,718	9.8%	Promulgation
4	New York	1,144,583,448	8.9%	Prior Approval
5	Pennsylvania	506,768,911	3.9%	Prior Approval
6	Illinois	432,027,151	3.4%	Exempt / No Provision
7	New Jersey	400,199,765	3.1%	Prior Approval
8	Arizona	366,402,776	2.9%	File & Use
9	Colorado	348,104,866	2.7%	File & Use
10	Ohio	342,715,041	2.7%	Prior Approval
11	Michigan	326,340,069	2.5%	File & Use
12	Virginia	313,196,923	2.4%	Exempt / No Provision
13	Washington	311,786,100	2.4%	File & Use
14	Georgia	287,062,172	2.2%	Exempt / No Provision
15	Massachusetts	265,970,006	2.1%	File & Use
16	Maryland	225,522,591	1.8%	Prior Approval
17	Utah	223,582,800	1.7%	File & Use
18	Oregon	215,226,453	1.7%	Prior Approval
19	Tennessee	173,909,510	1.4%	File & Use
20	Wisconsin	161,467,049	1.3%	File & Use
21	Nevada	152,776,020	1.2%	File & Use
22	Louisiana	148,712,387	1.2%	Prior Approval
23	North Carolina	145,338,079	1.1%	File & Use
24	Minnesota	138,620,483	1.1%	File & Use
25	South Carolina	123,278,765	1.0%	Prior Approval
26	Indiana	116,065,430	0.9%	Exempt / No Provision
27	Connecticut	104,368,579	0.8%	Prior Approval
28	Idaho	95,313,082	0.7%	File & Use
29	Alabama	86,659,858	0.7%	File & Use
30	New Mexico	83,526,941	0.7%	Promulgation
31	Hawaii	77,906,481	0.6%	Exempt / No Provision
32	Kentucky	76,986,884	0.6%	File & Use
33	Oklahoma	66,736,379	0.5%	Exempt / No Provision
34	Washington, D.C.	66,126,945	0.5%	Exempt / No Provision
35	Delaware	51,049,447	0.4%	File & Use
36	Arkansas	51,028,484	0.4%	Exempt / No Provision
37	Nebraska	49,329,137	0.4%	Prior Approval
38	Montana	47,667,908	0.4%	File & Use
39	Kansas	47,217,152	0.4%	File & Use
40	Missouri	46,834,325	0.4%	File & Use
41	Mississippi	39,205,137	0.3%	Exempt / No Provision
42	New Hampshire	33,383,225	0.3%	Prior Approval
43	Alaska	32,493,102	0.3%	Prior Approval
44	Maine	30,590,120	0.2%	Prior Approval
45	Wyoming	28,634,393	0.2%	Prior Approval
46	Rhode Island	27,296,687	0.2%	File & Use
47	South Dakota	22,236,591	0.2%	Prior Approval
48	West Virginia	19,072,211	0.1%	Exempt / No Provision
49	North Dakota	15,665,569	0.1%	Prior Approval
50	Vermont	12,885,860	0.1%	File & Use
51	Iowa	10,424,032	0.1%	Promulgation
	Total U.S.	12,850,264,613	100.0%	

Regulatory Framework	States	2015 Premiums	% of Total
File & Use	21	$4,731,980,118	36.8%
Prior Approval	16	$3,423,708,077	26.6%
Promulgation	4	$3,226,149,105	25.1%
Exempt / No Provision	10	$1,468,427,313	11.4%
Total	51	$12,850,264,613	100.0%