

Fidelity National Info (FIS)

\$146.24 (As of 01/16/20)

Price Target (6-12 Months): **\$154.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

Shares of Fidelity National have outperformed the industry in the past six months. While earnings estimate have remained stable ahead of fourth-quarter results, the company displays an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. It remains well positioned for growth backed by attractive core business with a recurring revenue model and several ongoing strategic initiatives. Acquisition of Worldpay is likely to accelerate its growth by boosting presence in faster growing markets. Also, the deal will provide synergies of \$700 million from revenue and cost savings over next three years. However, the company remains exposed to consolidation in the banking sector and significant competition from new entrants. Also, unsustainable capital deployment activities remain a concern.

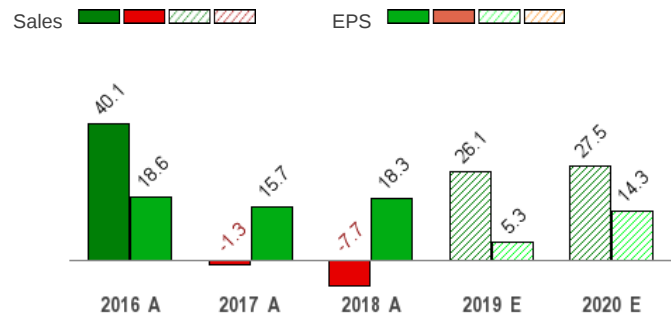
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$146.33 - \$102.93
20 Day Average Volume (sh)	2,509,952
Market Cap	\$89.9 B
YTD Price Change	5.1%
Beta	0.63
Dividend / Div Yld	\$1.40 / 1.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 19% (48 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	22.7
P/E F1	23.2
PEG F1	1.9
P/S TTM	9.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,205 E	3,392 E	3,369 E	3,577 E	13,544 E
2019	2,057 A	2,112 A	2,822 A	3,334 E	10,619 E
2018	2,066 A	2,106 A	2,084 A	2,167 A	8,423 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.39 E	\$1.57 E	\$1.60 E	\$1.76 E	\$6.30 E
2019	\$1.64 A	\$1.78 A	\$1.43 A	\$1.53 E	\$5.51 E
2018	\$1.09 A	\$1.23 A	\$1.33 A	\$1.60 A	\$5.23 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

Overview

Headquartered in Jacksonville, FL, Fidelity National Information Services Inc. provides banking and payments technology solutions, processing services and information-based services to the financial services industry. The company came into existence following the merger with Certegy Inc., a provider of credit card, debit card, other transaction processing and check risk management services to financial institutions in 2006.

In July 2019, the company acquired Worldpay, post which, Fidelity became a global leader in financial technology, solutions and services for merchants, banks and capital markets. In 2018, Worldpay processed more than 40 billion transactions, supporting more than 300 payment types across 146 countries and 126 currencies. Through the Worldpay transaction, Fidelity has enhanced global payment capabilities, robust risk and fraud solutions and advanced data analytics.

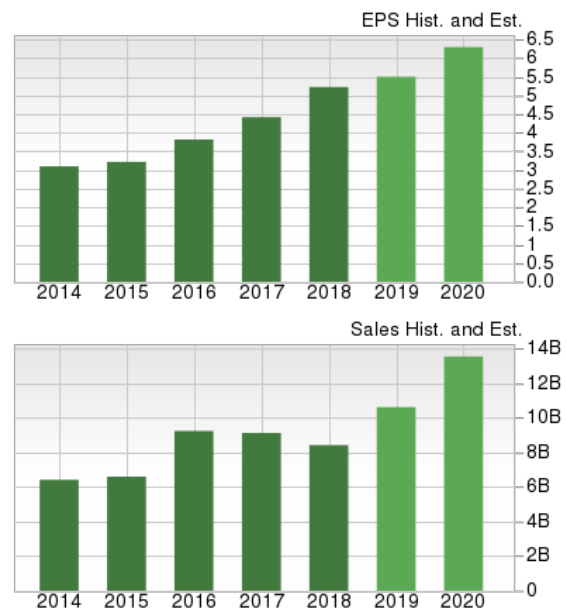
Also, post-acquisition, the company reorganized its reportable segments as follows:

Merchant Solutions: The segment focuses on serving global merchants by enabling them to accept electronic payments. Also, it includes all aspects of payment processing, including authorization and settlement, customer service, chargeback and retrieval processing, reporting for electronic payment transactions and network fee and interchange management.

Banking Solutions: This segment serves global market with a host of solutions including transaction and account processing, digital channel solutions, payment solutions, risk and compliance solutions and channel solutions. It primarily serves integrated solutions, which are distinguished by multi-year processing contracts that generate recurring revenues.

Capital Market Solutions: The segment offers financial institutions across the globe a broad array of buy and sell-side solutions. The company has long-established relationships with many of these financial and commercial institutions that generate significant recurring revenues.

Corporate / Other: The segment consists of corporate overhead expense, certain leveraged functions and miscellaneous expenses that are not included in the operating segments as well as certain non-strategic businesses.



Reasons To Buy:

- ▲ Organic growth remained a key strength at Fidelity, as reflected by its revenue growth story. Though revenues declined in 2018, it recorded a CAGR of 10.8% over the last five years (2013-2017), with the trend continuing in the first three quarters of 2019. We believe that the company will be able to retain its revenue momentum in the coming quarters, given its strong market position and attractive core business. Also, we remain optimistic, based on its broad and diverse customer base, high recurring revenues from processing and maintenance and several ongoing initiatives, including digital strategy.
- ▲ We believe that Fidelity is well positioned to benefit from increasing investment in mobile banking and innovative products such as PayNet and BuyWay. Mobile banking is developing into an essential extension of online banking as smartphone and tablet usage continues to accelerate globally. We believe that banks and financial institutions will choose the company's innovative solutions (such as mobile wallet) in order to differentiate their services going forward. This will provide a significant growth opportunity over the long term.
- ▲ Fidelity continues to benefit from a healthy business portfolio, which has grown inorganically over time. Since 2013, the company has maintained an acquisition spree, fortifying its footprint in various areas. These transactions also provided significant synergies, which drove top- and bottom-line growth. In July 2019, the company acquired Worldpay, which is expected to further support revenue growth. The combined company expects to realize synergies of \$700 million from the combination of revenues and expense opportunities over the next three years. Given its strong capital position, the company is going to continue undertaking acquisitions that fit its overall business mix and are easy to integrate over the long term.
- ▲ Shares of Fidelity have outperformed the industry over the past six months. With this favorable trend, the company's earnings estimates for 2019 have been revised slightly upward over the past 60 days. Also, the stock seems undervalued when compared with the broader industry. Its current price-to-book and price-to-cash flow ratios are below respective industry averages. Therefore, given the progress on fundamentals and positive estimate revisions, the stock might continue to perform well in the quarters ahead.

Fidelity strengthened position in the financial and payments solutions business, primarily based on its superior product portfolio and digitization. Also, inorganic growth strategies are encouraging.

Reasons To Sell:

- ▼ Fidelity believes that consolidation within the banking and financial services industry will continue in the near future. This might have a negative impact on its revenue growth, particularly in those cases where the company is providing multiple services to both merchant entities. As the payment market continues to shift from paper-based to electronic, the company expects to add new services in response to this trend. Due to this shift, card transactions continue to increase as a percentage of total point-of-sale payments. However, the use of checks continues to decline as a percentage of total point-of-sale payments, which negatively impact its check warranty and item processing businesses. Moreover, the mix shift toward electronic transactions increases the risk of fraud, which remains a concern, going forward.
- ▼ Fidelity's core banking products and services as well as mortgage information services are part of a highly competitive market. Moreover, the market for core banking products and services is considerably mature and comprises a number of existing competitors with a high level of experience and significant market share. Given the attractive prospects in the financial services market, there are always new market entrants who seek to leverage on shifts in technology or product innovation to attract customers. We expect the company to face significant competition from new market entrants going forward.
- ▼ Fidelity's capital deployment activities keep us apprehensive. Since 2015, the company has been involved in capital deployment activities though there were no share repurchases during 2016. Notably, the company has a \$4-billion share repurchase program underway, which is expected to be completed by December 2020, with about \$2.3 billion outstanding as of Sep 30, 2019. Also, in January 2019, the company announced a 9% hike in quarterly dividend. However, its debt/equity ratio compares unfavorably with the industry's average. Also, given its volatile quarterly performance, these payouts do not seem to be sustainable.

Consolidation in the banking sector and stiff competition from new entrants remain key headwinds. Also, unsustainable capital deployment activities due to volatile quarterly performance is a concern.

Last Earnings Report

Fidelity National Q3 Earnings Beat Estimates, Costs Up

Fidelity's third-quarter 2019 adjusted earnings per share from continuing operations came in at \$1.43 that surpassed the Zacks Consensus Estimate of \$1.35. The bottom line compares favorably the year-ago quarter figure of \$1.33.

Organic revenue growth and expanding margin were the key tailwinds. Also, strong liquidity position was a positive factor. However, significant rise in expenses posed a key concern.

On a GAAP basis, the company reported net earnings attributable to common stockholders of \$154 million or 29 cents compared with \$154 million or 47 cents in the prior-year quarter.

Organic Revenues Increase, Expenses Up

GAAP revenues for the quarter came in at \$2.82 billion, up 35% year over year. The figure topped the consensus estimate of \$2.8 billion.

Organic revenues went up nearly 5% in the quarter.

Selling, general and administrative expenses were \$757 million, up significantly year over year.

Segment wise, Merchant Solutions' GAAP revenues grew considerably to \$720 million, and revenues from Banking Solutions rose 4% to \$1.49 million. Capital Market Solutions' revenues climbed 4% to \$611 million.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) increased to \$1.19 billion from \$808 million in year-ago quarter. Adjusted EBITDA margin expanded 350 basis points to 42.2%.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash and cash equivalents were \$1.31 billion compared with \$703 million as of Dec 31, 2018. Debt outstanding was nearly \$20.2 billion.

In the third quarter, net cash provided by operations was \$921 million and free cash flow nearly doubled from the prior-year quarter to \$640 million.

Fidelity paid dividends worth \$215 million in the reported quarter.

Guidance

Fourth-Quarter 2019

The company raised fourth-quarter guidance primarily reflecting current business trends and ongoing synergy achievement.

Fidelity expects GAAP revenues to be between \$3.3 billion and \$3.34 billion.

Adjusted earnings per share (EPS) are expected to be in the band of \$1.50-\$1.55. Adjusted EBITDA is expected in the range of \$1.48 billion to \$1.51 billion.

GAAP net earnings are likely to be \$125-\$280 million, and EPS are projected to be 20 cents to 45 cents.

Full-Year 2019

Fidelity expects both non-GAAP and GAAP revenues between \$10.29 billion and \$10.33 billion.

Adjusted EPS are expected in the band of \$5.47-\$5.56. Adjusted EBITDA is expected in the range of \$4.19-\$4.22 billion.

GAAP net earnings are likely to be within \$602-\$772 million, while EPS is projected in the \$1.33-\$1.70 band.

Effective tax rate is expected to be about 17%.

Mid-Term Outlook

The company expects to realize revenue synergies of \$150 million from the WorldPay acquisition in 2020. Also, it raised expense synergies target by \$50 million to \$350 million.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.76%
EPS Surprise	5.93%
Quarterly EPS	1.43
Annual EPS (TTM)	6.45

Recent News

Fidelity Ups Borrowing Capacity of Credit Facility - May 29, 2019

Fidelity has completed modification of the existing Revolving Credit Facility, which raised its capacity to borrow from \$4.0 billion to \$5.5 billion, with expiration on Sep 21, 2023.

Further, Fidelity raised the capacity under its existing U.S. Commercial Paper (USCP) program to \$5.5 billion from \$4 billion. Also, the company adopted a new European Commercial Paper (ECP) program.

Through the ECP program, Fidelity may issue, on a private placement basis, senior unsecured commercial paper notes of up to \$4.7 billion maximum aggregate amount outstanding at any time. Also, it may issue notes from time to time, with maturities that vary, but do not exceed 183 days from the date of issue.

The company intends to use about \$2.9 billion in borrowings under the ECP and USCP programs and the proceeds from its recently completed \$8.2 billion multi-currency bond offering, to finance the cash portion of the consideration for its pending merger with Worldpay. The expenses to be financed include outstanding Worldpay debt and other costs and expenses of the merger.

As a result of recent bond offering and new ECP program, the company expects weighted average interest rate on the permanent financing of the \$11.1 billion used for the Worldpay deal to be nearly 1.5%.

Dividend Update

On Oct 24, Fidelity announced a common stock dividend of 35 cents per share. The dividend was paid on Dec 27 to its shareholders on record as of Dec 13.

Valuation

Fidelity National's shares are up 38.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 43.9% and 18.5% over the past year, respectively.

The S&P 500 index is up 27.4% in the past year.

The stock is currently trading at 23.04X forward 12 months earnings, which compares to 28.14X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.4X and as low as 13.89X, with a 5-year median of 18.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$154 price target reflects 24.19X forward earnings.

The table below shows summary valuation data for FIS

Valuation Multiples - FIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.04	28.14	14.79	18.97
	5-Year High	25.4	28.14	16.21	19.34
	5-Year Low	13.89	20.78	12.01	15.17
	5-Year Median	18.62	22.92	13.98	17.44
P/B TTM	Current	1.83	8.21	2.83	4.5
	5-Year High	4.53	12.79	2.89	4.5
	5-Year Low	1.56	5.34	1.83	2.85
	5-Year Median	2.88	7.87	2.5	3.61
P/S F12M	Current	6.61	10.63	6.53	3.53
	5-Year High	9.68	11.65	6.61	3.53
	5-Year Low	1.9	7.19	5.2	2.54
	5-Year Median	3.12	8.69	6.04	3

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Top 19% (48 out of 254)



Top Peers

Diebold Nixdorf, Incorporated (DBD)	Outperform
Fiserv, Inc. (FISV)	Neutral
FleetCor Technologies, Inc. (FLT)	Neutral
Green Dot Corporation (GDOT)	Neutral
Global Payments Inc. (GPN)	Neutral
NCR Corporation (NCR)	Neutral
Nautilus Group, Inc. (The) (NLS)	Neutral
WEX Inc. (WEX)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FIS Neutral	X Industry	S&P 500	DBD Outperform	FISV Neutral	GPN Neutral
VGM Score	D	-	-	C	C	B
Market Cap	89.88 B	2.51 B	24.22 B	890.04 M	81.73 B	58.89 B
# of Analysts	13	6	13	3	14	14
Dividend Yield	0.96%	0.00%	1.75%	0.00%	0.00%	0.40%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.07	0.04	0.28	0.01	0.04
EV/EBITDA	36.96	18.59	14.11	-27.81	44.63	49.36
PEG Ratio	1.93	1.73	2.06	NA	1.75	1.43
Price/Book (P/B)	1.82	4.52	3.34	NA	2.42	2.11
Price/Cash Flow (P/CF)	15.09	17.74	13.57	4.90	26.08	22.13
P/E (F1)	23.21	22.40	18.90	12.69	24.25	25.92
Price/Sales (P/S)	9.81	5.09	2.65	0.20	10.62	15.48
Earnings Yield	4.31%	4.41%	5.29%	7.85%	4.13%	3.86%
Debt/Equity	0.34	0.34	0.72	-5.19	0.66	0.32
Cash Flow (\$/share)	9.69	2.62	6.94	2.37	4.61	8.85
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	17.58%	16.43%	10.56%	-22.46%	16.43%	21.58%
Proj. EPS Growth (F1/F0)	14.45%	17.59%	7.59%	534.92%	22.72%	22.50%
Curr. Cash Flow Growth	10.67%	10.67%	14.73%	-46.64%	18.73%	25.04%
Hist. Cash Flow Growth (3-5 yrs)	16.71%	10.92%	9.00%	1.32%	8.93%	24.12%
Current Ratio	0.86	1.15	1.24	1.21	1.08	1.17
Debt/Capital	25.61%	36.09%	42.99%	NA	39.69%	24.33%
Net Margin	NA%	10.25%	11.14%	NA	12.11%	NA
Return on Equity	12.07%	19.33%	17.16%	NA	16.73%	9.05%
Sales/Assets	0.22	0.44	0.55	1.09	0.26	0.17
Proj. Sales Growth (F1/F0)	%	10.50%	4.23%	NA	6.99%	NA
Momentum Score	D	-	-	D	B	A
Daily Price Chg	1.22%	0.79%	0.27%	1.40%	1.43%	0.81%
1 Week Price Chg	2.10%	2.07%	0.39%	2.03%	0.65%	3.28%
4 Week Price Chg	5.91%	3.20%	2.17%	5.94%	3.18%	6.85%
12 Week Price Chg	13.18%	7.09%	6.65%	21.49%	16.20%	21.53%
52 Week Price Chg	40.33%	40.94%	22.43%	192.68%	61.36%	72.75%
20 Day Average Volume	0	403,198	1,545,017	0	2,275,852	0
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.18%	0.08%
(F1) EPS Est 12 week change	-0.83%	0.10%	-0.41%	-3.86%	3.48%	6.61%
(Q1) EPS Est Mthly Chg	-0.24%	0.00%	0.00%	0.00%	0.00%	1.37%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

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

Disclosures

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