

Fidelity National Info (FIS)

\$108.35 (As of 03/16/20)

Price Target (6-12 Months): **\$114.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Shares of Fidelity National have underperformed the industry in the past six months. Yet, the company displays an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The company remains well poised for growth backed by attractive core business with several ongoing initiatives. Acquisition of Worldpay is likely to accelerate growth by expanding its presence in fast growing markets. The company recently raised run-rate synergy targets to \$1.23 billion from revenue and cost savings by 2022. Further, increasing investment in mobile banking and innovative products is likely to support the company's growth. However, the company remains exposed to persistently rising costs and consolidation in the banking sector. Also, unsustainable capital deployment activities remain a concern.

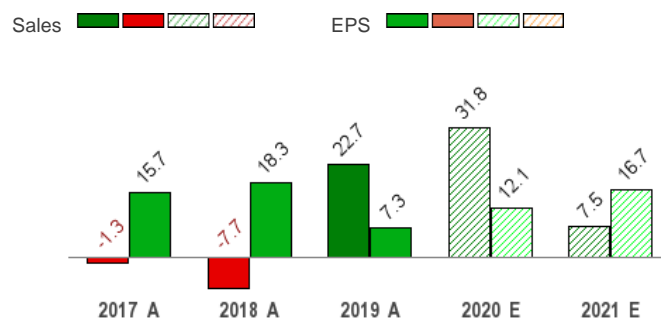
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$158.21 - \$104.87
20 Day Average Volume (sh)	5,104,140
Market Cap	\$66.8 B
YTD Price Change	-22.1%
Beta	0.59
Dividend / Div Yld	\$1.40 / 1.3%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	05/05/2020
Earnings ESP	0.7%
P/E TTM	16.9
P/E F1	17.2
PEG F1	1.4
P/S TTM	6.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,428 E	3,651 E	3,674 E	3,879 E	14,641 E
2020	3,202 E	3,405 E	3,418 E	3,596 E	13,621 E
2019	2,057 A	2,112 A	2,822 A	3,341 A	10,333 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.56 E	\$1.82 E	\$1.87 E	\$2.10 E	\$7.34 E
2020	\$1.33 E	\$1.56 E	\$1.62 E	\$1.79 E	\$6.29 E
2019	\$1.64 A	\$1.78 A	\$1.43 A	\$1.57 A	\$5.61 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 03/16/2020. The reports text is as of 03/17/2020.

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 one of the global leaders in financial technology, solutions and services for merchants, banks and capital markets. Through the Worldpay transaction, Fidelity has enhanced global payment capabilities, robust risk and fraud solutions and advanced data analytics.

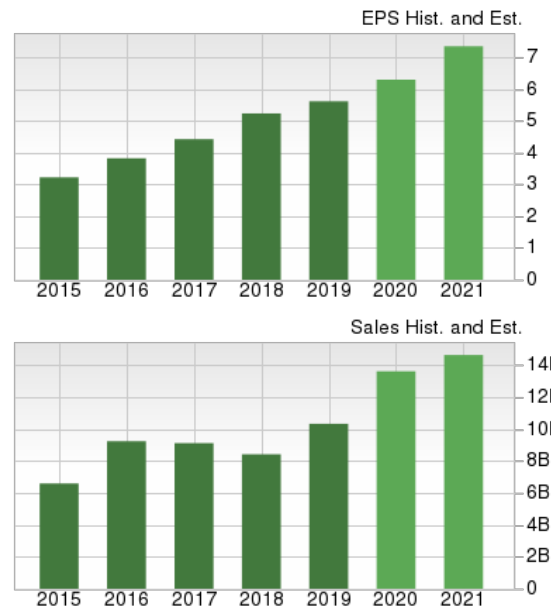
Also, post-acquisition, the company reorganized its reportable segments as follows:

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. Top line recorded a CAGR of 13.3% over the last five years (2015-2019), with some annual volatility. The company will likely be able to retain its revenue momentum in the coming quarters, given the strong market position and attractive core business. Broad and diverse customer base, high recurring revenues from processing and maintenance and several ongoing initiatives, including digital strategy, are expected to continue supporting revenue growth.
- ▲ 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 revenue synergies of \$550 million and expense synergies of \$675 million by 2022. 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.

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:

- ▼ We remain concerned about Fidelity's consistently increasing cost base. Selling, general and administrative expense saw a CAGR of 24.7% over the last five years (ended 2019), with some annual volatility. The increase in integration-related costs and investment in technology led to this upside. Therefore, a persistent uptrend in expenses is expected, which is likely to limit profitability and operational efficiency of the company.
- ▼ 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. Further, given the high usage of cards in transactions, the use of checks continues to decline as a percentage of total point-of-sale payments. This negatively impact the company's 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 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. Also, in January 2019, the company announced a 9% hike in quarterly dividend. However, given its volatile quarterly performance, these payouts do not seem to be sustainable.
- ▼ Shares of Fidelity have underperformed the industry over the past six months. The company's earnings estimates for current year have been revised slightly downward over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-earnings (F1) and price-to-sales ratios are above respective industry averages. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

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 Q4 Earnings Beat, Revenues Increase

Fidelity's fourth-quarter 2019 adjusted earnings per share from continuing operations came in at \$1.57, surpassing the Zacks Consensus Estimate of \$1.54. However, the bottom line compared unfavorably with the year-ago quarter figure of \$1.60.

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 loss attributable to common stockholders of \$158 million or 26 cents against net earnings \$299 million or 91 cents in the prior-year quarter.

In 2019, adjusted net earnings attributable to common stockholders came in at \$2.5 billion or \$5.61 per share compared with \$1.7 billion or \$5.23 per share in the prior year. The Zacks Consensus Estimate was pegged at \$5.51.

Organic Revenues Increase, Expenses Up

GAAP revenues in the quarter came in at \$3.34 billion, up 54% year over year. The figure topped the consensus estimate of \$3.33 billion.

In 2019, the company reported GAAP revenues of \$10.3 billion, up 23% year over year. Also, it matched with the Zacks Consensus Estimate.

Organic revenues went up nearly 7% in the quarter.

Selling, general and administrative expenses were \$1.23 billion, up significantly year over year.

Segment wise, Merchant Solutions' GAAP revenues grew to \$1.12 billion, and revenues from Banking Solutions rose 6% to \$1.56 million. Capital Market Solutions' revenues climbed 8% to \$669 million.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) increased to \$1.49 billion from \$864 million in year-ago quarter. Adjusted EBITDA margin expanded 470 basis points to 44.6%.

Balance Sheet & Cash Flow

As of Dec 31, 2019, cash and cash equivalents were \$1.15 billion compared with \$703 million as of Dec 31, 2018. Debt outstanding was nearly \$20.2 billion.

In the fourth quarter, net cash provided by operations was \$670 million and free cash flow nearly doubled from the prior-year quarter to \$812 million.

Fidelity paid dividends worth \$215 million in the reported quarter. In 2019, the company paid dividends worth \$656 million.

Guidance

First-Quarter 2020

Fidelity expects GAAP revenues to be between \$3.18 billion and \$3.21 billion.

Adjusted earnings per share (EPS) are expected to be in the band of \$1.30-\$1.34. Adjusted EBITDA is expected in the range of \$1.48 billion to \$1.51 billion.

The company expects to report between net loss of 15 cents per share and breakeven on GAAP basis.

Effective tax rate is expected to be about 16%.

Full-Year 2020

Fidelity expects both non-GAAP and GAAP revenues between \$13.6 billion and \$13.7 billion.

Adjusted EPS is expected in the band of \$6.17-\$6.35. Adjusted EBITDA is expected to increase 44% in 2020.

GAAP EPS is projected to be between 50 cents and \$1.30.

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.

Effective tax rate is expected to be about 16%.

Segments Outlook

Merchant Solutions is expected to grow in the low-double digits as underlying business trends remain robust, and the company expects revenue synergies to rise throughout the year.

Banking Solutions is anticipated to continue to generate mid-single digit growth in 2020,

For 2020, the company expects Capital Markets Solutions to show modest acceleration compared with 2019 as it continues to boost recurring

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	0.24%
EPS Surprise	1.95%
Quarterly EPS	1.57
Annual EPS (TTM)	6.42

revenues.

Recent News

Dividend Update

On Jan 30, Fidelity announced a common stock dividend of 35 cents per share. The dividend will be paid on Mar 27 to its shareholders on record as of Mar 13.

Valuation

Fidelity National's shares are down 6.6% in the year-to-date period but up 0.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 9% and 22.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 10.9%, while the sector is down 17.8%.

The S&P 500 Index is down 15.8% in the year-to-date period and 5.3% in the past year.

The stock is currently trading at 16.63X forward 12 months earnings, which compares to 23.84X for the Zacks sub-industry, 11.62X for the Zacks sector and 15.72X 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 18.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$114 price target reflects 17.46X 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	16.63	23.84	11.62	15.72
	5-Year High	25.4	28.03	16.21	19.34
	5-Year Low	13.89	20.78	11.62	15.18
	5-Year Median	18.67	23.01	13.97	17.42
P/B TTM	Current	1.35	6.73	2.19	3.64
	5-Year High	4.53	12.79	2.89	4.55
	5-Year Low	1.35	5.34	1.83	2.85
	5-Year Median	2.86	7.97	2.52	3.63
P/S F12M	Current	4.82	9.13	5.99	2.9
	5-Year High	9.68	10.7	6.64	3.43
	5-Year Low	1.9	7.19	5.39	2.54
	5-Year Median	3.31	8.69	6.04	3

As of 03/16/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

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

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FIS Neutral	X Industry	S&P 500	DBD Neutral	FISV Neutral	GPN Neutral
VGM Score	D	-	-	A	B	F
Market Cap	66.78 B	1.72 B	16.36 B	307.64 M	58.52 B	41.90 B
# of Analysts	15	6.5	13	2	16	15
Dividend Yield	1.29%	0.00%	2.63%	0.00%	0.00%	0.56%
Value Score	D	-	-	B	D	D
Cash/Price	0.01	0.09	0.06	0.74	0.01	0.03
EV/EBITDA	25.34	11.15	10.54	11.15	23.77	27.90
PEG Ratio	1.44	1.11	1.46	NA	1.22	0.99
Price/Book (P/B)	1.35	2.76	2.26	NA	1.69	1.50
Price/Cash Flow (P/CF)	13.32	11.49	8.80	1.42	12.87	19.90
P/E (F1)	17.23	15.96	13.18	4.18	17.38	18.60
Price/Sales (P/S)	6.46	2.92	1.78	0.07	5.75	8.53
Earnings Yield	5.81%	6.24%	7.56%	23.93%	5.76%	5.38%
Debt/Equity	0.35	0.35	0.70	-4.38	0.62	0.32
Cash Flow (\$/share)	8.13	2.86	7.01	2.80	6.70	7.03
Growth Score	C	-	-	A	A	D
Hist. EPS Growth (3-5 yrs)	18.44%	17.05%	10.85%	-23.96%	17.05%	21.70%
Proj. EPS Growth (F1/F0)	12.13%	14.73%	5.72%	778.57%	23.97%	20.88%
Curr. Cash Flow Growth	57.47%	8.41%	6.15%	27.22%	147.85%	50.80%
Hist. Cash Flow Growth (3-5 yrs)	26.53%	10.92%	8.55%	2.99%	29.38%	39.74%
Current Ratio	0.84	1.15	1.24	1.18	1.08	1.22
Debt/Capital	25.84%	38.74%	42.57%	NA	38.74%	24.47%
Net Margin	2.88%	8.29%	11.64%	-7.74%	8.77%	8.77%
Return on Equity	9.60%	19.57%	16.74%	NA	11.78%	7.25%
Sales/Assets	0.18	0.45	0.54	1.09	0.22	0.17
Proj. Sales Growth (F1/F0)	31.83%	8.64%	3.50%	-4.19%	50.36%	46.26%
Momentum Score	C	-	-	F	B	C
Daily Price Chg	-16.59%	-13.34%	-12.67%	-21.54%	-16.67%	-19.17%
1 Week Price Chg	-7.15%	-6.89%	-11.01%	-9.96%	-3.17%	-3.66%
4 Week Price Chg	-31.18%	-31.03%	-32.63%	-56.18%	-29.55%	-32.24%
12 Week Price Chg	-21.61%	-23.48%	-30.17%	-64.52%	-25.92%	-23.28%
52 Week Price Chg	0.21%	-19.36%	-23.26%	-65.11%	1.28%	4.32%
20 Day Average Volume	5,104,140	713,157	3,457,426	1,721,798	6,022,049	2,805,673
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	0.00%	-0.10%	-0.09%
(F1) EPS Est 4 week change	-0.06%	-0.10%	-0.48%	-23.39%	-0.10%	-0.09%
(F1) EPS Est 12 week change	-0.18%	-0.61%	-0.93%	4.01%	0.21%	-0.61%
(Q1) EPS Est Mthly Chg	0.06%	0.00%	-0.60%	-750.00%	0.00%	0.00%

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	C
Momentum Score	C
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.

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