

Fidelity National Info (FIS)

\$137.20 (As of 05/18/20)

Price Target (6-12 Months): **\$144.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

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 and met in one. First-quarter results reflect revenue growth and margin expansion. 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 presence in fast-growing markets. Further, increasing investment in mobile banking and innovative products is likely to support the company's growth. However, it remains exposed to rising costs and consolidation in the banking sector. Notably, the company temporarily suspended buybacks due to the Worldpay acquisition to undertake debt repayment.

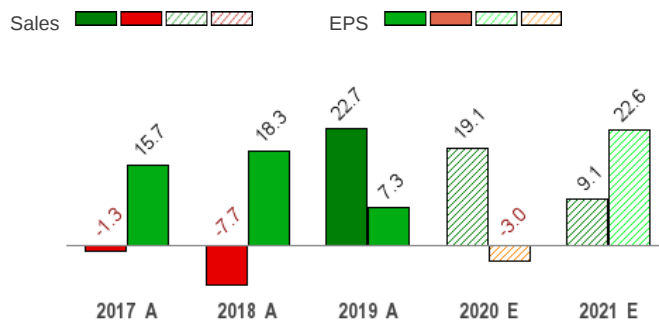
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$158.21 - \$91.68
20 Day Average Volume (sh)	4,029,265
Market Cap	\$84.2 B
YTD Price Change	-2.0%
Beta	0.67
Dividend / Div Yld	\$1.40 / 1.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 25% (190 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.8%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	22.5
P/E F1	25.2
PEG F1	2.1
P/S TTM	7.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,202 E	3,236 E	3,342 E	3,619 E	13,431 E
2020	3,078 A	2,831 E	3,046 E	3,332 E	12,311 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	\$1.43 E	\$1.56 E	\$1.68 E	\$1.91 E	\$6.67 E
2020	\$1.28 A	\$1.09 E	\$1.36 E	\$1.64 E	\$5.44 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 05/18/2020. The reports text is as of 05/19/2020.

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.

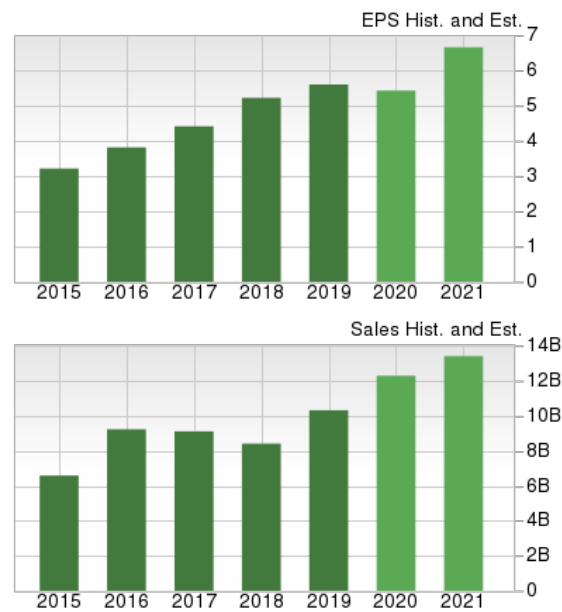
Also, post-acquisition, the company reorganized its reportable segments as follows:

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. Further, the top line continued to rise in the first three months of 2020. 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.
- ▲ As of Mar 31, 2020, the company holds total debt worth \$20.4 billion. The debt level has witnessed a rise over the past few quarters and its debt-to-capital ratio, currently 0.29, has displayed volatile trend. Further, the company's earnings before interest and tax was 1.5 times the interest expenses and have declined in the past few quarters. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe that Fidelity carries credit risk and higher likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ 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 \$200 million and expense synergies of \$700 million by 2020. 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 the trend continuing in first-quarter 2020. 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. Notably, the company temporarily suspended buybacks due to the Worldpay acquisition to accelerate debt repayment.
- ▼ Shares of Fidelity have underperformed the industry over the past six months. With this unfavorable trend, the company's earnings estimates for the current year have declined 4.1% over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-cash flow and price-to-sales ratios are above the 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 Q1 Earnings Beat Estimates, Revenues Rise Y/Y

Fidelity's first-quarter 2020 adjusted earnings per share from continuing operations were \$1.28, surpassing the Zacks Consensus Estimate by a penny. Also, the bottom line compared favorably with the year-ago quarter figure of \$1.16.

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

On a GAAP basis, the company reported net earnings attributable to common stockholders of \$15 million or 2 cents per share compared with \$148 million or 45 cents in the prior-year quarter.

Organic Revenues Increase, Expenses Flare Up

GAAP revenues in the quarter were \$3.08 billion, up 50% year over year. The figure met the Zacks Consensus Estimate.

Organic revenues went up nearly 2% in the quarter.

Selling, general and administrative expenses were \$881 million, up significantly year over year.

Segment wise, Merchant Solutions' GAAP revenues grew to \$935 million from \$50 million in the year-ago quarter. Revenues from Banking Solutions rose 6% to \$1.46 million. Capital Market Solutions' revenues climbed 10% to \$631 million.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) increased to \$1.25 billion from \$729 million in the year-ago quarter. Adjusted EBITDA margin expanded 510 basis points to 40.5%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$1.37 billion compared with \$1.15 billion as of Dec 31, 2019. Debt outstanding was \$20.4 billion.

In the first quarter, net cash provided by operations was \$383 million and free cash flow nearly doubled from the prior-year quarter to \$539 million.

The company paid out dividends worth \$216 million in the reported quarter.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-0.05%
EPS Surprise	0.79%
Quarterly EPS	1.28
Annual EPS (TTM)	6.06

Recent News

Dividend Update

On Apr 24, Fidelity announced a common stock dividend of 35 cents per share. The dividend will be paid on Jun 26 to its shareholders on record as of Jun 12.

Valuation

Fidelity National's shares are down 6.5% in the year-to-date period but up 15.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.8%, while the Zacks Finance sector is down 26.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 10.6% while the sector is down 19%. The S&P 500 Index is down 8.2% in the year-to-date period but up 3.8% in the past year.

The stock is currently trading at 23.09X forward 12 months earnings, which compares to 29.71X for the Zacks sub-industry, 14.66X for the Zacks sector and 20.83X 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 18.68X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$144 price target reflects 24.24X 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	23.09	29.71	14.66	20.83
	5-Year High	25.4	29.17	16.18	20.87
	5-Year Low	13.89	20.78	11.58	15.23
	5-Year Median	18.68	23.16	13.94	17.49
P/B TTM	Current	1.71	6.76	2.25	3.91
	5-Year High	4.53	12.79	2.9	4.56
	5-Year Low	1.27	5.23	1.71	2.83
	5-Year Median	2.84	8.08	2.53	3.65
P/S F12M	Current	6.61	10.53	5.81	3.24
	5-Year High	9.68	10.7	6.7	3.44
	5-Year Low	1.9	7.19	4.99	2.53
	5-Year Median	3.4	8.71	6.05	3.01

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Nautilus Group, Inc. The (NLS)	Outperform	1
Diebold Nixdorf, Incorporated (DBD)	Neutral	4
Fiserv, Inc. (FISV)	Neutral	3
FleetCor Technologies, Inc. (FLT)	Neutral	3
Green Dot Corporation (GDOT)	Neutral	3
Global Payments Inc. (GPN)	Neutral	3
NCR Corporation (NCR)	Neutral	3
WEX Inc. (WEX)	Neutral	4

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FIS	X Industry	S&P 500	DBD	FISV	GPN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	C	-	-	C	C	C
Market Cap	84.24 B	1.98 B	20.09 B	391.32 M	70.33 B	53.87 B
# of Analysts	14	6	14	2	15	15
Dividend Yield	1.03%	0.00%	2.1%	0.00%	0.00%	0.43%
Value Score	D	-	-	D	D	D
Cash/Price	0.02	0.10	0.07	1.50	0.01	0.04
EV/EBITDA	31.15	11.95	12.13	11.09	27.31	34.92
PEG Ratio	2.10	1.94	2.72	NA	1.84	1.94
Price/Book (P/B)	1.71	3.13	2.75	NA	2.13	1.96
Price/Cash Flow (P/CF)	16.77	10.51	10.86	1.80	15.69	25.63
P/E (F1)	25.22	25.08	20.10	NA	23.87	29.62
Price/Sales (P/S)	7.42	3.70	2.05	0.09	5.65	9.08
Earnings Yield	3.99%	3.57%	4.77%	-9.72%	4.19%	3.38%
Debt/Equity	0.39	0.39	0.76	-3.31	0.65	0.35
Cash Flow (\$/share)	8.13	2.63	7.01	2.80	6.70	7.03
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	18.33%	18.08%	10.87%	-37.80%	17.52%	21.71%
Proj. EPS Growth (F1/F0)	-3.08%	-11.14%	-10.31%	-250.00%	10.03%	-2.24%
Curr. Cash Flow Growth	57.47%	13.97%	5.51%	27.22%	147.85%	50.80%
Hist. Cash Flow Growth (3-5 yrs)	26.53%	14.60%	8.55%	2.99%	29.38%	39.74%
Current Ratio	1.05	1.18	1.28	1.24	1.07	1.34
Debt/Capital	27.85%	37.24%	44.46%	NA	39.67%	25.93%
Net Margin	1.45%	7.54%	10.59%	-7.02%	8.51%	7.79%
Return on Equity	7.89%	19.53%	16.29%	-1.98%	9.62%	6.46%
Sales/Assets	0.16	0.49	0.55	1.10	0.20	0.16
Proj. Sales Growth (F1/F0)	19.15%	-5.05%	-2.49%	-16.24%	37.19%	22.40%
Momentum Score	F	-	-	F	F	B
Daily Price Chg	3.12%	4.75%	5.21%	11.50%	5.03%	6.02%
1 Week Price Chg	3.11%	-3.85%	-4.56%	-12.74%	-4.54%	-2.95%
4 Week Price Chg	11.19%	15.65%	4.12%	36.96%	8.03%	21.52%
12 Week Price Chg	-9.54%	-17.53%	-16.39%	-34.72%	-9.90%	-10.14%
52 Week Price Chg	15.23%	-13.18%	-5.84%	-47.17%	20.50%	21.25%
20 Day Average Volume	4,029,265	572,100	2,651,378	1,725,894	4,513,171	1,725,033
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.06%	-11.09%	-4.48%	-176.56%	-5.60%	-4.05%
(F1) EPS Est 12 week change	-13.62%	-24.29%	-16.39%	-139.52%	-11.33%	-21.31%
(Q1) EPS Est Mthly Chg	-15.27%	-18.10%	-9.90%	-118.18%	-14.83%	-7.83%

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	C

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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