

Fiserv Inc. (FISV)

\$118.53 (As of 01/13/20)

Price Target (6-12 Months): **\$126.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Fiserv's stock has outperformed the industry in the past, partly due to back-to-back earnings beat in the first and second quarters of 2019 and raised 2019 guidance. The company enjoys a dominant position in the financial and payments solutions business on the back of broad and diverse customer base, and continued technology upgrades. Its diversified product portfolio helps attract a steady flow of customers. Acquisitions help boost its market share and customer base. Consistency in rewarding shareholders through share buybacks boosts investors' confidence and positively impact earnings per share. On the flip side, maintaining strong and long-term client relationships is a difficult task amid stiff competition. High debt may limit the company's future expansion and worsen its risk profile. Multiple buyouts result in integration risk.

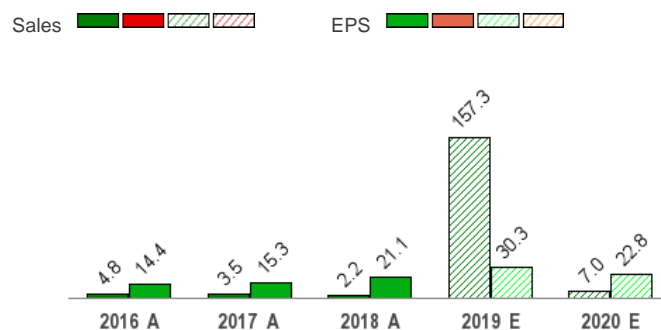
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$118.70 - \$68.45
20 Day Average Volume (sh)	2,297,859
Market Cap	\$80.6 B
YTD Price Change	2.5%
Beta	0.78
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 19% (47 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.0%
Last Sales Surprise	-18.0%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/06/2020
Earnings ESP	0.8%
P/E TTM	33.7
P/E F1	23.9
PEG F1	2.0
P/S TTM	10.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,863 E	4,051 E	4,031 E	4,213 E	16,027 E
2019	1,502 A	1,512 A	3,128 A	3,964 E	14,981 E
2018	1,440 A	1,420 A	1,412 A	1,551 A	5,823 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.08 E	\$1.24 E	\$1.25 E	\$1.39 E	\$4.96 E
2019	\$0.84 A	\$0.82 A	\$1.02 A	\$1.14 E	\$4.04 E
2018	\$0.76 A	\$0.75 A	\$0.75 A	\$0.84 A	\$3.10 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

Founded in 1984, Fiserv Inc. is headquartered in Brookfield, WI. The company provides financial services technology solutions to over 12,000 clients worldwide in the banking, insurance, healthcare and investment industries. Fiserv serves banks, credit unions, leasing and finance companies, investment management firms, billers, retailers, and merchants.

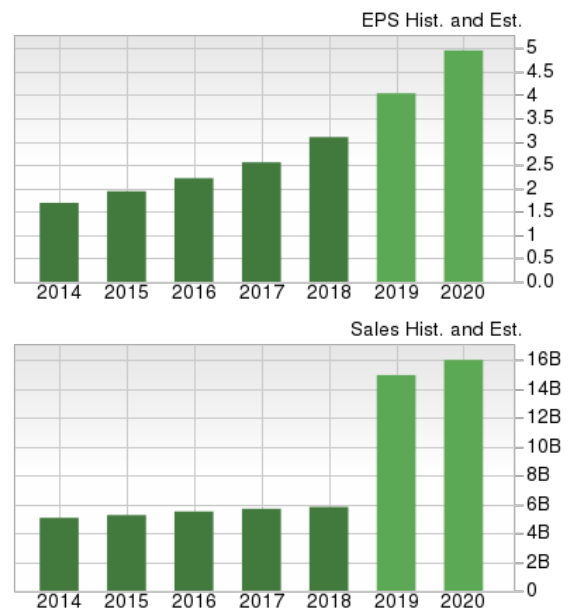
The company has grown its business through developing highly specialized products and services and enhancing them, increasing capabilities through innovation, expanding client base, and acquiring complementary businesses. Core focus areas of Fiserv's business are portfolio management, client relationship value enhancement, operational effectiveness, capital discipline and innovation.

Revenues climbed 2.2% year over year to \$5.8 billion in 2018. Processing & services revenues, primarily generated from account-and-transaction based fees under contracts (three to five-year terms), represented 85.4% of revenues in 2018. The company has two reportable segments –

Payments and Industry Products– This segment provides electronic bill payment and presentment services; person-to-person payment services; account-to-account transfers; debit and credit card processing and services; Internet and mobile banking software and services; payments infrastructure services; and other electronic payments software and services. The segment also provides card and print personalization services; fraud and risk management products and services, and investment account processing services for separately managed accounts. It accounted for about 59% of 2018 revenues.

Financial Institution Services– This segment provides account processing, item processing and source capture, cash management and consulting services, loan origination and servicing products, among others. The segment also provides ACH and treasury management, and source capture optimization services and case management and resolution services to the financial services industry. It accounted for about 41% of total revenue in 2018.

Fiserv has announced the acquisition of First Data Corporation in a \$22 billion all-stock deal which is expected to close during the second half of 2019.



Reasons To Buy:

- ▲ Fiserv's **dominant position** in the financial and payments solutions business is expected to drive long-term growth. We believe that the broad and diverse customer base, efforts to enhance high recurring revenues and continued technology upgrades will help the company to drive growth. In 2018, which marked the third year of Fiserv's ongoing five-year operational effectiveness program, the company achieved \$200 million of the expected \$250 million savings. The savings came on the back of solid labor optimization and procurement benefits. The company is focused on achieving the remaining \$50 million target and plans to close the five-year program early.
- ▲ Fiserv continues to expand its product portfolio and enhance its offerings with the help of **strategic acquisitions**. On Jul 29, 2019, Fiserv completed the acquisition of First Data. This is one of the biggest financial mergers in a decade and will help Fiserv emerge as one of the world's largest payments and financial technology providers. In 2018, Fiserv completed the purchase of Elan's debit card processing, ATM Managed Services and MoneyPass surcharge free network for approximately \$690 million. It should boost Fiserv's payments portfolio, widen its client base and provide new solutions to enhance the value proposition for its existing 3,000 debit solutions clients. In 2017, Fiserv completed four acquisitions - Online Banking Solutions, Inc., PCLender, LLC, Dovetail Group Limited and Monitise plc. These buyouts helped the company to improve cash management and digital business banking solutions and transform payments infrastructure. We believe that the company will continue to pursue accretive deals, which will boost its market share and customer base going forward. Fiserv is focused on becoming a global leader in transaction-based technology solutions.
- ▲ Fiserv's **diversified product portfolio** continues to yield a steady flow of customers. The rapidly changing financial services industry and increasing demand for digital banking and payment services provide significant growth opportunities to Fiserv. Notably, third-quarter 2019 witnessed significant client additions. Fiserv's DNA platform signed six new clients. Debit transaction grew in high single digits and total P2P transactions, including Popmoney and Zelle solutions, doubled on a year-over-year basis and went up 15% sequentially. Mobiliti ASP subscribers increased 14% to 9 million and Mobiliti business clients increased 18%. Zelle transactions nearly tripled, backed by the number of live clients, which doubled sequentially. The company signed 130 Zelle clients in the reported quarter (exceeding the combination of first two quarters of the year). Backed by such strong demand, the company expects to witness more client additions moving ahead.
- ▲ The company seems to be actively **engaged in enhancing its services**. In October 2019, Fiserv launched an intelligent bill payment system, CheckFreeNext, which should transform the bill payment experience with personalized suggestions, increased automation and unmatched connectivity. In February 2019, Fiserv announced the launch of Mortgage Momentum, a digital-focused approach, aimed at enhancing the overall lending and borrowing experience. In October 2018, Fiserv announced the launch of a flexible and interactive financial planning tool (which integrates with home office systems and streamlines manual processes) to help financial advisors operate more efficiently and collaborate with clients in their investment targets. In September 2018, Fiserv announced the launch of Originate, a new suite of solutions aimed at helping banks and credit unions deliver enhanced digital account opening and loan origination to customers. In August 2018, the company upgraded its unified managed account (UMA) services to help financial institutions and advisors operate more efficiently and announced the launch of two enhanced consumer authentication solutions, step-up authentication and identity verification to help call centers counter card fraud.
- ▲ We are also impressed with Fiserv's consistent efforts to **return value to shareholders** in the form of share repurchases. During the first nine months of 2019, the company repurchased 2 million shares for \$156 million. In 2018, 2017 and 2016, the company had repurchased shares worth \$1.91 billion, \$1.17 billion and \$1.20 billion, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instill investors' confidence but also positively impact earnings per share.
- ▲ Fiserv's shares have gained 57.9% year to date, outperforming the 45.3% growth of the industry it belongs to. The **outperformance** partly reflects better-than-expected earnings performance in the first and second quarters of 2019 and raised guidance for 2019. Adjusted earnings per share are now expected in the range of \$3.98 to \$4.02 (indicating 16-17% year-over-year growth) compared with the prior guided range of \$3.39-\$3.52 (suggesting 10-14% year-over-year growth). The company now expects internal revenue growth of 6% compared with the prior guided range of 4.5-5%. Adjusted operating margin is now anticipated to expand by nearly 100 bps compared with the prior guidance of 50 bps and free cash flow conversion is estimated around 115% compared with the prior guidance of more than 105%.

Fiserv continues to widen its client base and enhance its product portfolio with the help of acquisitions.

Reasons To Sell:

- ▼ Fiserv's core banking products and services are part of a **highly competitive market**. The industry is getting more competitive with the entry of several non-banking bodies such as internal data processing departments, data processing affiliates of large companies, large computer hardware manufacturers, independent computer service firms, and processing centers that offer both customer facing and back office financial technology products and services. Going forward, competition is anticipated to increase as market entrants multiply in number and the existing ones expand their product lines and services with updated technologies to attract customers and retain the existing ones. Maintaining strong and long-term client relationships is a difficult task amid stiff competition.
- ▼ Fiserv's **balance sheet is highly leveraged**. As of Sep 30, 2019, long-term debt was \$22.12 billion while cash and cash equivalents were \$1.03 billion. Such a cash position implies that Fiserv needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.
- ▼ Fiserv's policy of acquiring a large number of companies results in some **integration risk**. Acquisitions can negatively impact its balance sheet in the form of a high level of goodwill and intangible assets, which totaled \$7.8 billion or 69.7% of total assets at the end of Dec 31, 2018. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth.

Stiff competition, acquisition-related integration risks and high debt continue to weigh on Fiserv's prospects.

Last Earnings Report

Fiserv Lags Q3 Earnings and Revenue Estimates

Fiserv reported disappointing third-quarter 2019 results, wherein the company's earnings and revenues lagged the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.02 missed the consensus mark by a penny but increased on a year-over-year basis. Revenues of \$3.13 billion lagged the consensus estimate by \$688.6 million but improved more than 100% year over year.

Adjusted revenues of \$3.62 billion increased 5% on a year-over-year basis. Internal revenue growth was 6% on a constant-currency basis, with First Data segment, Payments segment and Financial segment up 7%, 6% and 4%, respectively.

Revenues in Detail

Revenues at the **First Data** segment increased 2.2% year over year to \$2.42 billion, on the back of solid performance in the former GBS segment and strength across its digital commerce, ISV Solutions, Clover and global merchant acquiring. Adjusted revenues of \$2.17 billion grew 3.5% year over year.

Revenues at the **Payments and Industry Products** segment increased 9.7% year over year to \$926 million. Adjusted revenues of \$861 million grew 11.4% year over year. The upside was driven by solid performance of card services, electronic payments and output solutions businesses.

In the reported quarter, debit transaction grew in high single digits and total P2P transactions, including Popmoney and Zelle solutions, doubled on a year-over-year basis and went up 15% sequentially. Mobiliti ASP subscribers increased 14% to 9 million and Mobiliti business clients increased 18%. Zelle transactions nearly tripled, backed by the number of live clients, which doubled sequentially. The company signed 130 Zelle clients in the reported quarter (exceeding the combination of first two quarters of the year).

Revenues at the **Financial Institution Services** segment increased 3.8% year over year to \$596 million. The upside was driven by the company's account and item processing businesses.

Revenues at **Total processing and services** segment increased more than 100% year over year to \$2.61 billion while **product revenues** grew more than 100% year over year to \$520 million.

Operating Results

Adjusted operating income of \$1.08 billion was up 10.2% from the year-ago quarter. Adjusted operating margin of 29.8% grew 130 basis points (bps) year over year, driven by increased revenue growth and some limited benefit from cost synergies, partially offset by the Elan acquisition.

Adjusted operating income at the First Data segment was \$667 million, up 4.5% year over year. Adjusted operating margin improved 20 bps year over year to 30.7%. The uptick came on the back of strong revenue growth and cost containment, partially offset by foreign currency movements.

Adjusted operating income at the Payments and Industry Products segment was \$309 million, up 15.7% year over year. Adjusted operating margin improved 150 bps year over year to 35.9%. The improvement can be attributed to additional revenue growth and reduction of last year's tax funded investments, which were partially offset by the impact of the Elan acquisition (completed on Oct 31).

Operating income at the Financial Institution Services segment totaled \$196 million, up 4.8% year over year and operating margin of 32.9% improved 20 bps. The upside was driven by high-quality recurring revenue growth and operational efficiency.

Balance Sheet and Cash Flow

Fiserv exited third-quarter 2019 with cash and cash equivalents of \$1.03 billion compared with \$8.44 billion at the end of the prior quarter. Long-term debt at the end of the reported quarter was \$22.12 billion compared with \$13.75 billion at the end of the prior quarter.

The company generated \$1.04 billion of net cash from operating activities in the reported quarter. Free cash flow was \$1.70 billion. Capital expenditures were \$221 million.

Fiserv reinstated its share repurchase program late in the third quarter and repurchased 341,000 shares in the quarter for \$35 million. As of Sep 30, 2019, the company had 24 million shares remaining in its authorization.

2019 Guidance

Fiserv raised its guidance for full-year 2019. Adjusted earnings per share are now expected in the range of \$3.98 to \$4.02 (indicating 16-17% year-over-year growth) compared with the prior guided range of \$3.39-\$3.52 (which suggests 10-14% year-over-year growth). The company now expects internal revenue growth of 6% compared with the prior guided range of 4.5-5%.

Adjusted operating margin is now anticipated to expand by nearly 100 bps compared with the prior guidance of 50 bps and free cash flow conversion is estimated around 115% compared with the prior guidance of more than 105%.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-18.04%
EPS Surprise	-0.97%
Quarterly EPS	1.02
Annual EPS (TTM)	3.52

Recent News

On **Dec 5, 2019**, Fiserv announced that it has inked a deal with Motive Partners wherein the latter will acquire up to 60% of the Investment Services business of Fiserv. With a retention of 40% equity interest in the business, Fiserv will receive roughly \$510 million in net after-tax proceeds.

Valuation

Fiserv shares are up 57.9% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 45.3%, 28.6% and 25%, respectively in the same time frame.

The stock is currently trading at 23.76X price to forward 12 months' earnings, which compares to 27.9X for the Zacks sub-industry, 25.52X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.86X and as low as 18.89X, with a 5-year median of 22.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$126.00 price target reflects 25.2X forward 12 months' earnings.

The table below shows summary valuation data for FISV

Valuation Multiples - FISV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.76	27.9	25.52	19
	5-Year High	28.86	27.9	25.52	19.34
	5-Year Low	18.89	20.78	18.76	15.17
	5-Year Median	22.4	22.92	20.56	17.44
P/S F 12M	Current	4.75	9.33	4.01	3.52
	5-Year High	6.51	11.65	5.13	3.52
	5-Year Low	2.56	7.19	3.09	2.54
	5-Year Median	4.33	8.69	3.63	3
P/B TTM	Current	2.39	8.12	4.96	4.49
	5-Year High	16.78	12.79	6.73	4.49
	5-Year Low	2.03	5.34	4.13	2.85
	5-Year Median	9.86	7.87	5.32	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 254)



Top Peers

Alliance Data Systems Corporation (ADS)	Neutral
Broadridge Financial Solutions, Inc. (BR)	Neutral
Equifax, Inc. (EFX)	Neutral
FactSet Research Systems Inc. (FDS)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Gartner, Inc. (IT)	Neutral
Paychex, Inc. (PAYX)	Neutral
TransUnion (TRU)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FISV Neutral	X Industry	S&P 500	EFX Neutral	FIS Neutral	PAYX Neutral
VGM Score	B	-	-	F	D	C
Market Cap	80.59 B	2.51 B	24.31 B	17.99 B	87.72 B	30.88 B
# of Analysts	14	6	13	11	14	11
Dividend Yield	0.00%	0.00%	1.76%	1.05%	0.98%	2.88%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.07	0.04	0.01	0.01	0.02
EV/EBITDA	44.13	18.38	14.12	26.63	36.20	17.48
PEG Ratio	1.99	1.73	2.05	2.97	2.53	3.97
Price/Book (P/B)	2.39	4.48	3.34	7.03	1.78	12.02
Price/Cash Flow (P/CF)	25.71	17.60	13.66	17.60	14.73	21.53
P/E (F1)	23.90	22.13	18.82	25.71	22.65	27.76
Price/Sales (P/S)	10.48	5.13	2.64	5.23	9.58	7.65
Earnings Yield	4.18%	4.47%	5.29%	3.89%	4.41%	3.61%
Debt/Equity	0.66	0.34	0.72	1.11	0.34	0.35
Cash Flow (\$/share)	4.61	2.62	6.94	8.44	9.69	4.01
Growth Score	B	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	16.43%	16.43%	10.56%	8.15%	17.58%	10.85%
Proj. EPS Growth (F1/F0)	22.72%	17.59%	7.49%	3.60%	12.32%	9.41%
Curr. Cash Flow Growth	18.73%	10.67%	14.83%	0.23%	10.67%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	8.93%	10.92%	9.00%	9.86%	16.71%	12.37%
Current Ratio	1.08	1.15	1.23	0.57	0.86	1.17
Debt/Capital	39.69%	36.09%	42.99%	52.56%	25.61%	25.87%
Net Margin	12.11%	10.25%	11.08%	-11.13%	8.24%	26.72%
Return on Equity	16.73%	19.33%	17.16%	24.39%	12.07%	41.21%
Sales/Assets	0.26	0.44	0.55	0.47	0.22	0.44
Proj. Sales Growth (F1/F0)	6.99%	10.50%	4.23%	5.68%	27.54%	10.17%
Momentum Score	A	-	-	F	F	B
Daily Price Chg	1.20%	0.73%	0.73%	1.27%	0.56%	1.16%
1 Week Price Chg	0.65%	2.07%	0.39%	2.69%	2.10%	0.53%
4 Week Price Chg	1.73%	4.53%	1.84%	7.48%	4.17%	1.59%
12 Week Price Chg	13.49%	8.19%	6.48%	2.12%	10.79%	1.87%
52 Week Price Chg	60.44%	42.27%	23.15%	54.51%	37.69%	28.31%
20 Day Average Volume	2,297,859	413,682	1,578,594	585,389	2,665,549	1,353,869
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.03%	0.00%	0.00%
(F1) EPS Est 4 week change	0.19%	0.00%	0.00%	-0.03%	-0.09%	0.01%
(F1) EPS Est 12 week change	2.20%	0.09%	-0.48%	-3.86%	-1.14%	-0.01%
(Q1) EPS Est Mthly Chg	-0.28%	0.00%	0.00%	0.00%	-1.50%	-1.73%

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	A
VGM Score	B

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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