

Fiserv Inc. (FISV)

\$100.34 (As of 06/12/20)

Price Target (6-12 Months): **\$106.00**

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: C

Growth: A

Momentum: B

Summary

Fiserv enjoys a dominant position in the financial and payments solutions business on the back of broad and diverse customer base, and continued technology upgrades. The company's diversified product portfolio helps attract a steady flow of customers. Acquisitions help expand its product portfolio and enhance its offerings, boost its market share and customer base. The company has been consistently rewarding shareholders through share buybacks. These initiatives instill investors' confidence, positively impacting earnings per share and share price that has outperformed the industry over the past year. However, maintaining strong and long-term client relationships is a difficult task amid stiff competition. Acquisition of a large number of companies results in some integration risk. High debt may limit the company's future expansion.

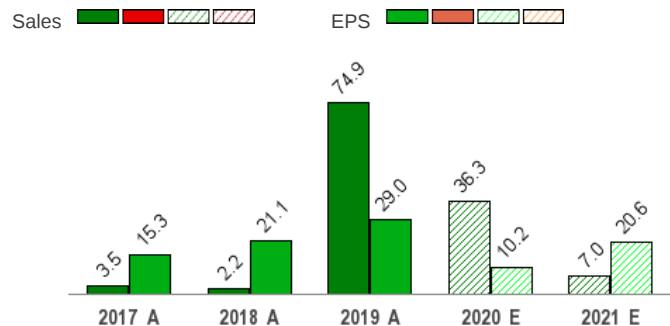
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.05 - \$73.50
20 Day Average Volume (sh)	4,230,562
Market Cap	\$67.2 B
YTD Price Change	-13.2%
Beta	0.83
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 49% (128 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	7.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	07/23/2020
Earnings ESP	-1.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,549 E	3,638 E	3,701 E	3,921 E	14,856 E
2020	3,769 A	3,285 E	3,394 E	3,659 E	13,886 E
2019	1,502 A	1,512 A	3,128 A	4,045 A	10,187 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.21 E	\$1.30 E	\$1.35 E	\$1.50 E	\$5.32 E
2020	\$0.99 A	\$0.93 E	\$1.12 E	\$1.33 E	\$4.41 E
2019	\$0.84 A	\$0.82 A	\$1.02 A	\$1.13 A	\$4.00 A

*Quarterly figures may not add up to annual.

P/E TTM	25.3
P/E F1	22.8
PEG F1	1.9
P/S TTM	5.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/12/2020. The reports text is as of 06/15/2020.

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.

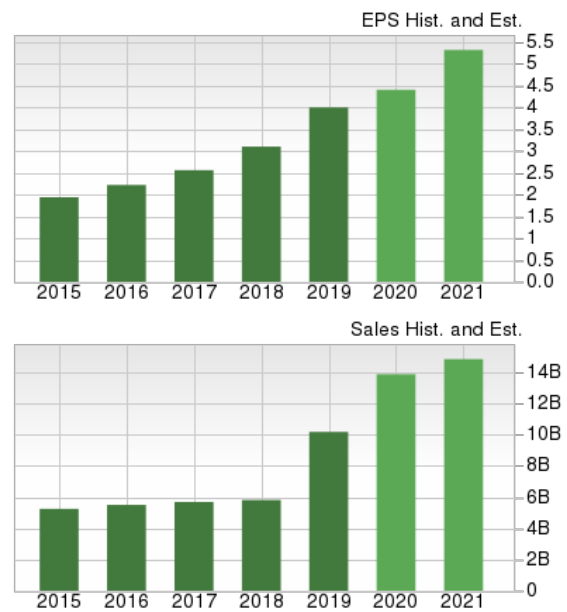
The company has grown its business through developing highly specialized products and services and enhancing them, increasing capabilities through innovation, expanding client base, and acquiring complementary businesses. Core focus areas of Fiserv's business are portfolio management, client relationship 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 2019, the company achieved \$47 million of savings, completing its five-year \$250 million operational effectiveness program a year early.
- ▲ Fiserv continues to expand its product portfolio and enhance its offerings with the help of **strategic acquisitions**. In March 2020, Fiserv completed the acquisitions of MerchantPro Express and Bypass Mobile. In 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, first-quarter 2020 witnessed significant client additions. Fiserv's DNA platform signed 10 new clients. Debit transaction grew in mid single-digits and total P2P transactions, including Popmoney and Zelle solutions, doubled on a year-over-year basis and went up 14% sequentially. Mobiliti ASP subscribers increased 9% to more than 9.2 million. The number of clients using Zelle increased almost 10 times from the year-ago quarter and went up 44% from the previous quarter. 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 2019, the company repurchased 4.2 million shares for \$394 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 instill investors' confidence, positively impacting earnings per share and share price that has gained 12.8% over the past year compared with the 9.1% growth of the industry.

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 has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$21.9 billion, almost in line with \$21.8 billion at the end of the prior quarter. The total debt to total capital ratio of 0.39 is higher than the industry's 0.37 and the previous quarter's 0.38. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$896 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$338 million.
- ▼ 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 Q1 Earnings Meet Estimates, Revenues Beat

Fiserv's first-quarter 2020 earnings matched the Zacks Consensus Estimate while revenues surpassed the same.

Adjusted earnings per share of 99 cents increased on a year-over-year basis. Revenues of \$3.77 billion outpaced the consensus estimate by 7.2% and improved more than 100% year over year.

Adjusted revenues of \$3.48 billion increased 0.1% on a year-over-year basis. Internal revenue growth was 4% in the reported quarter, with 6% growth in the Merchant Acceptance segment, 1% growth in the Financial Technology segment and 3% growth in the Payments and Network segment.

In March 2020, Fiserv completed the acquisitions of MerchantPro Express and Bypass Mobile. In February 2020, the company completed the sale of a 60% interest of its Investment Services business and retained a 40% interest. It received net after-tax proceeds of \$507 million from the deal.

Revenues in Detail

Revenues at the **Merchant Acceptance** segment came in at \$1.40 billion. Adjusted revenues of \$1.34 billion grew 0.1% year over year.

Revenues at the **Payments and Network** segment increased more than 100% year over year to \$1.39 billion. Adjusted revenues of \$1.39 billion grew 2.3% year over year.

Revenues at the **Financial Technology** segment decreased 0.9% year over year to \$718 million.

Revenues at **Total processing and services** segment increased more than 100% year over year to \$3.08 billion while **product revenues** grew more than 100% year over year to \$694 million.

Operating Results

Adjusted operating income of \$968 million was up 0.5% from the year-ago quarter. Adjusted operating margin of 27.8% grew 10 basis points (bps) year over year.

Adjusted operating income at the Merchant Acceptance segment was \$283 million, down 17% year over year. Adjusted operating margin declined 440 bps year over year to 21.2%.

Adjusted operating income at the Payments and Network segment was \$575 million, up 9.9% year over year. Adjusted operating margin improved 280 bps year over year to 41.2%.

Operating income at the Financial Technology segment totaled \$204 million, up 0.5% year over year. Operating margin of 28.3% improved 30 bps.

Balance Sheet and Cash Flow

Fiserv exited first-quarter 2020 with cash and cash equivalents of \$896 million compared with \$893 million at the end of the prior quarter. Long-term debt at the end of the reported quarter was \$21.61 billion, flat sequentially.

The company generated \$888 million of net cash from operating activities in the reported quarter. Free cash flow was \$760 million. Capital expenditures were \$246 million. Fiserv repurchased 8.6 million shares for \$885 million in the reported quarter.

2020 Guidance

Considering the current uncertainty prevailing in the market due to the coronavirus outbreak, Fiserv has withdrawn its full-year 2020 guidance.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	7.21%
EPS Surprise	0.00%
Quarterly EPS	0.99
Annual EPS (TTM)	3.96

Recent News

On **May 20, 2020**, Fiserv announced that it has been recognized as the Best Digital Mortgage Company in the fourth annual FinTech Breakthrough Awards.

On **Mar 18, 2020**, Fiserv announced that it has acquired independent software vendor (ISV) and enterprise point-of-sale (POS) systems expert Bypass Mobile. The financial terms of the deal were kept under wraps.

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 down 13.2% in the year-to-date period but up 12.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 1.2% and 5.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 9.1% and down 2.6%, respectively.

The S&P 500 index is down 5.5% in the year-to-date period but up 5.3% in the past year.

The stock is currently trading at 20.81X forward 12-month price-to-earnings, which compares to 31.06X for the Zacks sub-industry, 28.89X for the Zacks sector and 21.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.86X and as low as 14.92X, with a 5-year median of 22.48X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$106.00 price target reflects 22.03X price-to-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	20.81	31.06	28.89	21.93
	5-Year High	28.86	31.68	29.15	22.11
	5-Year Low	14.92	20.78	18.68	15.23
	5-Year Median	22.48	23.19	20.77	17.49
P/S F 12M	Current	4.69	11.09	3.95	3.41
	5-Year High	6.51	11.28	3.99	3.44
	5-Year Low	2.56	7.18	3.05	2.53
	5-Year Median	4.45	8.69	3.57	3.02
P/B TTM	Current	2.04	7.63	4.33	4.16
	5-Year High	16.78	12.78	6.68	4.56
	5-Year Low	1.51	5.22	3.2	2.83
	5-Year Median	9.86	8.07	5.18	3.66

As of 06/12/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (128 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation (ADS)	Neutral	3
Broadridge Financial Solutions, Inc. (BR)	Neutral	3
Equifax, Inc. (EFX)	Neutral	3
FactSet Research Systems Inc. (FDS)	Neutral	3
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Gartner, Inc. (IT)	Neutral	3
Paychex, Inc. (PAYX)	Neutral	3
TransUnion (TRU)	Neutral	4

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	FISV	X Industry	S&P 500	EFX	FIS	PAYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	D	C	C
Market Cap	67.18 B	2.28 B	21.47 B	20.39 B	84.69 B	26.46 B
# of Analysts	15	6	14	11	14	12
Dividend Yield	0.00%	0.00%	1.96%	0.93%	1.02%	3.36%
Value Score	C	-	-	F	D	C
Cash/Price	0.01	0.08	0.06	0.02	0.02	0.03
EV/EBITDA	26.37	11.25	12.36	1,470.34	31.28	14.87
PEG Ratio	1.90	2.00	2.92	12.66	1.88	3.35
Price/Book (P/B)	2.04	3.67	2.96	8.39	1.72	9.59
Price/Cash Flow (P/CF)	14.98	12.94	11.51	19.88	16.86	18.41
P/E (F1)	22.75	28.15	20.86	32.53	25.21	26.80
Price/Sales (P/S)	5.39	4.11	2.25	5.63	7.46	6.44
Earnings Yield	4.40%	3.47%	4.55%	3.07%	3.97%	3.73%
Debt/Equity	0.65	0.37	0.76	1.44	0.39	0.33
Cash Flow (\$/share)	6.70	2.39	7.01	8.45	8.13	4.01
Growth Score	A	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	17.52%	18.08%	10.87%	5.44%	18.33%	10.95%
Proj. EPS Growth (F1/F0)	10.13%	-10.52%	-10.81%	-8.10%	-3.08%	-8.17%
Curr. Cash Flow Growth	147.85%	14.82%	5.46%	0.48%	57.47%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	29.38%	14.60%	8.55%	8.37%	26.53%	12.37%
Current Ratio	1.07	1.21	1.29	1.00	1.05	1.19
Debt/Capital	39.67%	34.80%	44.75%	59.06%	27.85%	24.63%
Net Margin	8.51%	7.54%	10.54%	7.45%	1.45%	26.98%
Return on Equity	9.62%	19.20%	16.08%	27.87%	7.89%	41.68%
Sales/Assets	0.20	0.49	0.55	0.48	0.16	0.46
Proj. Sales Growth (F1/F0)	36.32%	-4.84%	-2.60%	4.43%	19.15%	-3.49%
Momentum Score	B	-	-	A	D	D
Daily Price Chg	0.49%	1.80%	1.48%	-0.40%	2.12%	1.65%
1 Week Price Chg	2.60%	6.48%	7.51%	15.27%	3.05%	10.75%
4 Week Price Chg	1.03%	16.92%	9.78%	15.82%	5.63%	16.84%
12 Week Price Chg	18.80%	36.82%	27.11%	45.55%	30.27%	27.11%
52 Week Price Chg	13.17%	-5.09%	-5.42%	26.65%	13.44%	-15.15%
20 Day Average Volume	4,230,562	444,685	2,634,935	1,096,550	3,277,874	2,292,110
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	11.33%	0.00%	0.00%
(F1) EPS Est 4 week change	0.09%	0.00%	0.00%	13.06%	0.00%	-3.79%
(F1) EPS Est 12 week change	-10.57%	-21.16%	-15.86%	-9.03%	-12.92%	-17.59%
(Q1) EPS Est Mthly Chg	-2.35%	0.00%	0.00%	47.34%	-0.42%	-4.26%

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	C
Growth Score	A
Momentum Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.