

Fiserv Inc. (FISV)

\$122.32 (As of 02/14/20)

Price Target (6-12 Months): **\$130.00**

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: C

Value: D

Growth: B

Momentum: C

Summary

Fiserv's fourth-quarter 2019 earnings missed the Zacks Consensus Estimate while revenue surpassed the same. 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. The company has been consistently rewarding shareholders through share buybacks. 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. Shares of Fiserv have underperformed the industry over the past year, partly due to back-to-back earnings miss in the third and fourth quarters of 2019.

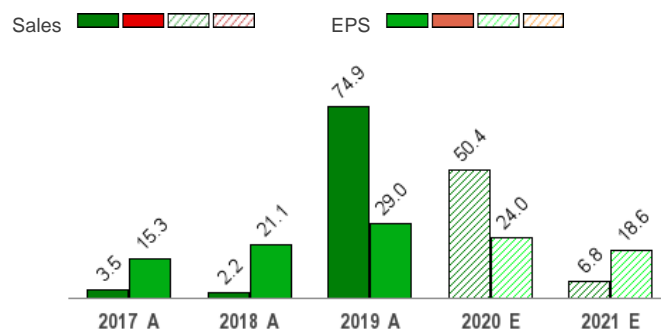
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$125.05 - \$81.62 |
| 20 Day Average Volume (sh) | 2,938,221 |
| Market Cap | \$83.2 B |
| YTD Price Change | 5.8% |
| Beta | 0.80 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Financial Transaction Services |
| Zacks Industry Rank | Top 30% (77 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------|
| Last EPS Surprise | -0.9% |
| Last Sales Surprise | 2.1% |
| EPS F1 Est- 4 week change | 0.1% |
| Expected Report Date | NA |
| Earnings ESP | -0.1% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | 3,895 E | 4,118 E | 4,110 E | 4,250 E | 16,366 E |
| 2020 | 3,651 E | 3,851 E | 3,845 E | 3,971 E | 15,317 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 | \$1.27 E | \$1.46 E | \$1.50 E | \$1.66 E | \$5.88 E |
| 2020 | \$1.05 E | \$1.23 E | \$1.27 E | \$1.41 E | \$4.96 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 | 32.1 |
| P/E F1 | 24.7 |
| PEG F1 | 2.1 |
| P/S TTM | 8.2 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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.

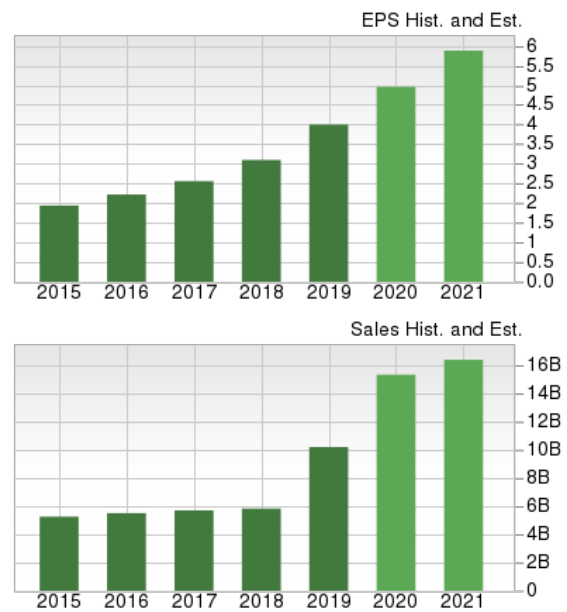
The company has grown its business through developing highly specialized products and services and enhancing them, increasing capabilities through innovation, expanding client base, and acquiring complementary businesses. Core focus areas of Fiserv's business are portfolio management, client relationship 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 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, fourth-quarter 2019 witnessed significant client additions. Fiserv's DNA platform signed 10 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 18% sequentially. Mobiliti ASP subscribers increased 11% to more than 9 million. Zelle transactions tripled in 2019 with the number of live clients increasing 10 times from the year-ago quarter. The company signed 112 Zelle clients in the reported 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 not only instill investors' confidence but also positively impact earnings per share .

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 Dec 31, 2019, long-term debt was \$21.6 billion while cash and cash equivalents were \$893 million. 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.
- ▼ Fiserv's shares have underperformed the industry in the past year, gaining 42.6% compared with the industry's growth of 43.3%. The **underperformance** partly reflects lower-than-expected earnings performance in the third and fourth quarters of 2019.

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

Last Earnings Report

Fiserv Lags Q4 Earnings Estimates, Beats on Revenues

Fiserv reported mixed fourth-quarter 2019 results, wherein the company's earnings lagged the Zacks Consensus Estimate but revenues surpassed the same.

Adjusted earnings per share of \$1.13 missed the consensus mark by a penny but increased on a year-over-year basis. Revenues of \$4.05 billion outpaced the consensus estimate by 2.1% and improved more than 100% year over year.

Adjusted revenues of \$3.71 billion increased 3.5% on a year-over-year basis. Internal revenue growth was 5% on a constant-currency basis, with 6% growth in the First Data segment, 4% growth in the Payments segment and relatively consistent performance in the Financial segment.

Let's check out the numbers in detail.

Revenues in Detail

Revenues at the **First Data** segment increased 2.7% year over year to \$2.46 billion, on the back of solid performance in the former GBS segment and strength across its digital commerce, ISV Solutions and global merchant acquiring. Adjusted revenues of \$2.22 billion grew 4.5% year over year.

Revenues at the **Payments and Industry Products** segment increased 4.6% year over year to \$987 million. Adjusted revenues of \$902 million grew 5% year over year. The upside was driven by solid performance of card services, output solutions and some early network revenue synergy benefits.

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 18% sequentially. Mobiliti ASP subscribers increased 11% to more than 9 million. Zelle transactions tripled in 2019 with the number of live clients increasing 10 times from the year-ago quarter. The company signed 112 Zelle clients in the reported quarter.

Revenues at the **Financial Institution Services** segment decreased 0.9% year over year to \$609 million.

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 \$1.16 billion was up 7.2% from the year-ago quarter. Adjusted operating margin of 29.8% grew 100 basis points (bps) year over year, driven by a combination of continued revenue growth, lapping of prior year's tax reinvestment, and the early benefits from synergies, partially offset by the expected lower periodic revenues compared with the fourth quarter of 2018.

Adjusted operating income at the First Data segment was \$708 million, up 6.3% year over year. Adjusted operating margin improved 50 bps year over year to 30.7%, driven mainly by strong revenue growth.

Adjusted operating income at the Payments and Industry Products segment was \$353 million, up 12.1% year over year. Adjusted operating margin improved 250 bps year over year to 39.2%. The improvement can be attributed to growth in high quality revenues, the reduction of last year's tax funded investments and the benefits from productivity and early synergy performance.

Operating income at the Financial Institution Services segment totaled \$207 million, down 0.5% year over year and operating margin of 34.1% improved 40 bps. The upside was driven by high-quality recurring revenue growth and operational efficiency, which had offset the impact of lower periodic revenues.

Balance Sheet and Cash Flow

Fiserv exited fourth-quarter 2019 with cash and cash equivalents of \$893 million compared with \$1.03 billion at the end of the prior quarter. Long-term debt at the end of the reported quarter was \$21.61 billion compared with \$22.12 billion at the end of the prior quarter.

The company generated \$1.18 billion of net cash from operating activities in the reported quarter. Free cash flow was \$984 million. Capital expenditures were \$290 million. Fiserv repurchased 2.2 million shares for \$238 million in the reported quarter.

2020 Guidance

Fiserv unveiled its guidance for full-year 2020. Adjusted earnings per share are expected in the range of \$4.86 to \$5.02 (indicating 23-27% year-over-year growth) over the adjusted earnings per share for 2019 as revised for the net impact of divestitures including the Investment Services transaction announced in December. The company expects internal revenue growth of 6-8%. Adjusted operating margin is anticipated to expand by at least 250 bps and free cash flow conversion is estimated above 112%.

Quarter Ending **12/2019**

| Report Date | Feb 04, 2020 |
|------------------|--------------|
| Sales Surprise | 2.05% |
| EPS Surprise | -0.88% |
| Quarterly EPS | 1.13 |
| Annual EPS (TTM) | 3.81 |

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 42.6% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 43.3%, 24.6% and 21%, respectively in the same time frame.

The stock is currently trading at 24.08X price to forward 12 months' earnings, which compares to 29.55X for the Zacks sub-industry, 26.66X for the Zacks sector and 19.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.86X and as low as 19.44X, with a 5-year median of 22.45X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$130.00 price target reflects 25.59X 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 | 24.08 | 29.55 | 26.66 | 19.36 |
| | 5-Year High | 28.86 | 29.55 | 26.66 | 19.36 |
| | 5-Year Low | 19.44 | 20.78 | 18.77 | 15.18 |
| | 5-Year Median | 22.45 | 23 | 20.57 | 17.47 |
| P/S F 12M | Current | 5.38 | 11.24 | 4.26 | 3.58 |
| | 5-Year High | 6.51 | 11.65 | 5.13 | 3.58 |
| | 5-Year Low | 2.56 | 7.19 | 3.09 | 2.54 |
| | 5-Year Median | 4.38 | 8.69 | 3.63 | 3 |
| P/B TTM | Current | 2.4 | 8.7 | 5.23 | 4.36 |
| | 5-Year High | 16.78 | 12.79 | 6.72 | 4.42 |
| | 5-Year Low | 2.03 | 5.34 | 4.13 | 2.85 |
| | 5-Year Median | 9.86 | 8.07 | 5.27 | 3.62 |

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 255)



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 | C | - | - | D | F | C |
| Market Cap | 83.16 B | 2.51 B | 24.61 B | 19.73 B | 96.76 B | 31.93 B |
| # of Analysts | 16 | 6 | 13 | 11 | 15 | 11 |
| Dividend Yield | 0.00% | 0.00% | 1.78% | 0.96% | 0.89% | 2.78% |
| Value Score | D | - | - | D | D | D |
| Cash/Price | 0.01 | 0.07 | 0.04 | 0.01 | 0.01 | 0.02 |
| EV/EBITDA | 31.16 | 19.41 | 14.06 | 28.88 | 39.37 | 18.07 |
| PEG Ratio | 2.06 | 1.73 | 2.09 | 3.29 | 2.79 | 4.10 |
| Price/Book (P/B) | 2.40 | 5.33 | 3.29 | 7.71 | 1.96 | 12.43 |
| Price/Cash Flow (P/CF) | 18.27 | 18.74 | 13.65 | 19.30 | 16.24 | 22.27 |
| P/E (F1) | 24.66 | 23.45 | 19.21 | 28.46 | 24.96 | 28.71 |
| Price/Sales (P/S) | 8.16 | 5.23 | 2.70 | 5.63 | 9.37 | 7.92 |
| Earnings Yield | 4.05% | 4.16% | 5.19% | 3.52% | 4.01% | 3.49% |
| Debt/Equity | 0.62 | 0.34 | 0.71 | 1.11 | 0.34 | 0.35 |
| Cash Flow (\$/share) | 6.70 | 2.73 | 6.92 | 8.44 | 9.69 | 4.01 |
| Growth Score | B | - | - | C | C | C |
| Hist. EPS Growth (3-5 yrs) | 17.05% | 17.05% | 10.85% | 8.15% | 17.58% | 10.85% |
| Proj. EPS Growth (F1/F0) | 24.06% | 16.50% | 7.17% | 1.88% | 12.45% | 9.41% |
| Curr. Cash Flow Growth | 147.85% | 10.67% | 8.56% | 0.23% | 10.67% | 10.82% |
| Hist. Cash Flow Growth (3-5 yrs) | 29.38% | 10.92% | 8.36% | 9.86% | 16.71% | 12.37% |
| Current Ratio | 1.08 | 1.15 | 1.23 | 0.57 | 0.86 | 1.17 |
| Debt/Capital | 38.74% | 36.09% | 42.91% | 52.56% | 25.61% | 25.87% |
| Net Margin | 8.77% | 8.29% | 11.81% | -11.37% | 2.88% | 26.72% |
| Return on Equity | 11.78% | 19.60% | 16.86% | 26.52% | 12.35% | 41.21% |
| Sales/Assets | 0.22 | 0.46 | 0.54 | 0.47 | 0.22 | 0.44 |
| Proj. Sales Growth (F1/F0) | 50.36% | 10.36% | 3.85% | 5.68% | 31.26% | 10.17% |
| Momentum Score | C | - | - | C | F | B |
| Daily Price Chg | 1.04% | 0.61% | 0.06% | 0.43% | 2.02% | 0.69% |
| 1 Week Price Chg | 2.74% | 2.57% | 2.47% | 3.81% | 1.95% | 2.58% |
| 4 Week Price Chg | 1.76% | 1.45% | 0.59% | 7.91% | 7.66% | 1.41% |
| 12 Week Price Chg | 7.22% | 8.49% | 6.98% | 18.10% | 15.37% | 5.00% |
| 52 Week Price Chg | 45.01% | 36.92% | 16.62% | 49.60% | 48.11% | 18.68% |
| 20 Day Average Volume | 2,938,221 | 426,343 | 2,020,569 | 688,288 | 2,956,867 | 1,178,159 |
| (F1) EPS Est 1 week change | -0.13% | 0.00% | 0.00% | -1.67% | -0.43% | 0.00% |
| (F1) EPS Est 4 week change | 0.11% | 0.00% | -0.05% | -1.95% | -0.19% | 0.00% |
| (F1) EPS Est 12 week change | 0.42% | 0.00% | -0.17% | -2.68% | -0.08% | 0.01% |
| (Q1) EPS Est Mthly Chg | -2.89% | 0.00% | -0.24% | 2.12% | -4.96% | 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 | B |
| Momentum Score | C |
| 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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