

## NCR Corporation (NCR)

**\$22.65** (As of 06/08/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:C

Value: B

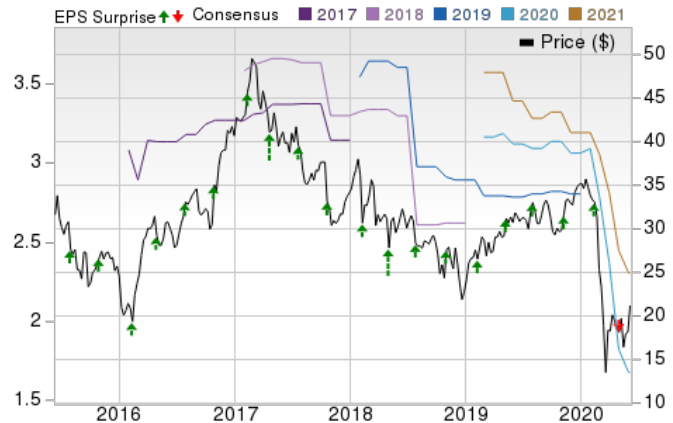
Growth: D

Momentum: C

### Summary

NCR's first-quarter 2020 results were driven by strong demand for software and service solutions, which boosted its banking segment. Moreover, the company's Digital Banking Solution witnessed positive momentum and increasing customers. The acquisition of D3 Technology aided the top line as well. Besides, in Digital First Restaurant, the company continued to see traction in Aloha Essentials. However, coronavirus-led demand delays and tornado-led damages to Nashville fulfillment center hurt the top line. Foreign exchange headwinds were an added woe. Previous guidance for 2020 was withdrawn as the company is still assessing the potential impacts of the pandemic, which is discouraging. Decline in ATM revenues were also a headwind. Moreover, growing competition from companies like Diebold and Fidelity is a persistent concern.

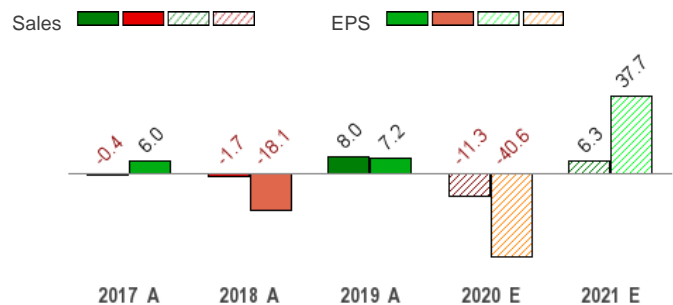
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$35.87 - \$10.55
20 Day Average Volume (sh)	1,104,821
Market Cap	\$2.9 B
YTD Price Change	-35.6%
Beta	1.68
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Computer - Integrated Systems</a>
Zacks Industry Rank	Bottom 41% (149 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.1%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	8.6
P/E F1	13.6
PEG F1	3.4
P/S TTM	0.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,520 E
2020	1,503 A	1,335 E	1,427 E	1,789 E	6,133 E
2019	1,536 A	1,710 A	1,783 A	1,886 A	6,915 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.45 E	\$0.52 E	\$0.75 E	\$2.30 E
2020	\$0.31 A	\$0.18 E	\$0.29 E	\$0.68 E	\$1.67 E
2019	\$0.48 A	\$0.76 A	\$0.73 A	\$0.85 A	\$2.81 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 06/08/2020. The reports text is as of 06/09/2020.

## Overview

Founded in 1884 and headquartered at Duluth, GA, NCR Corporation (NCR) and its subsidiaries provide technological solutions (both products and services) to help organizations connect, interact and transact with customers and solidify customer relationships. NCR serves customers in financial services, retail, hospitality, travel, and telecommunications and technology industries.

As of December 31, 2019, NCR reported approximately 34,000 employees and contractors worldwide. NCR's reportable segments are Software, Services and Hardware.

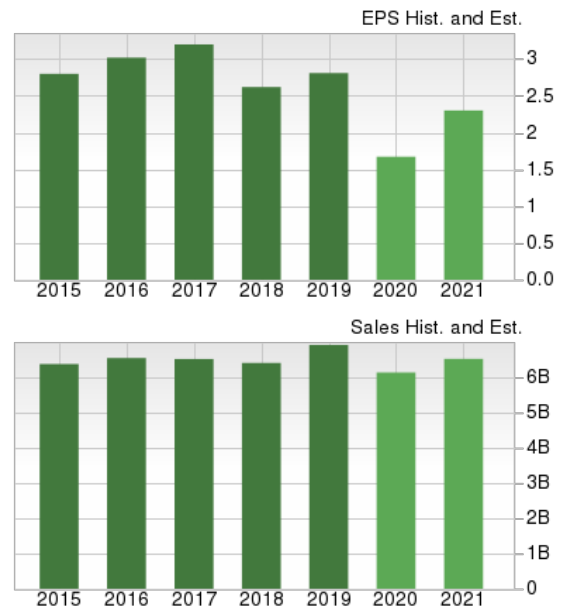
The Software segment (29.1% of total 2019 revenues) include industry-focused software platforms such as multi-vendor ATM software application suite for financial services, frictionless commerce, Outdoor Payment Terminals with an Interactive Consumer experience (OPTIC), Aloha POS Platform, end-to-end payment processing solutions for the retail and hospitality industries, and NCR Silver, a cloud-based POS system for small businesses. The company also offers other industry-oriented software applications like cash management software, video banking software, fraud and loss prevention applications, and check and document imaging, among others.

The Services segment (36.4%) includes global end-to-end services, covering assessment and preparation, to staging, installation and implementation, and multivendor maintenance and support.

NCR also provides a broad range of services to support/maintain its product offerings. Its services include Predictive Services (which is a managed services offering designed to predict and address information technology issues before they happen), Software as a Service (SaaS) (which is a hosted service) and online, mobile and transactional services and applications such as bill pay and digital signage.

The Hardware segment (34.5%) include multi-function ATMs, interactive teller machines (ITMs), thin-client ATMs, cash dispensers, cash recycling ATMs and hardware for check and image processing.

NCR faces significant competition from financial services and software providers like Fidelity National Information Services, Fiserv, First Data Corporation, ACI Worldwide and Alkami Technology. Its competitors in the ATM manufacturing field include Diebold Nixdorf and Nautilus Hyosung.



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## Reasons To Buy:

▲ The demand for NCR's POS solution is increasing in retailers and hospitality industries as it facilitates the automation of bill payment and accounting. As a result, managers get ample time for customer interaction, leading to increased productivity. NCR strengthened its position in the POS market through the acquisition of Radiant Systems in Aug 2011. According to Global Market Insights, the global market size for POS terminals will reach \$108.46 billion by 2025, witnessing a CAGR of 7.8%. The cloud segment is expected to expand at the highest CAGR over the forecast period. The report also states that the retail segment led the market in 2018 and is likely to maintain its dominance throughout the prediction period. Thus, NCR with its varied offerings of POS terminals and solutions should be able to capitalize on these growth opportunities.

NCR's growing exposure in the self-service kiosk space is encouraging. Continuous product launches, growing popularity of its self-service offerings and synergies from acquisitions are the catalysts.

▲ Given the popularity of the self-service concept, management has decided to expand beyond its traditional financial services markets to new industry verticals such as insurance, entertainment and gaming, healthcare, travel and hospitality, and the public and government sectors. NCR already provides self-service kiosks for the financial services, retail, hospitality, travel and gaming industries. The kiosks are well-equipped to support numerous retail self-service functions, including self-check in/out, way-finding, bill payment and gift registries. These solutions create pleasant and convenient experiences for consumers and enable NCR's customers to reduce costs. The kiosks for the hospitality industry provide consumers the ability to order and pay at restaurants while enabling restaurant owners to streamline order processing and reduce operating costs. The kiosks for the travel industry help passengers to buy tickets, book seats and to check-in/out without hassle. With a diverse self-service portfolio and associated benefits (cost and time savings), we believe that NCR is poised for solid growth.

▲ The company has supplemented its business growth through acquisitions. In the past two decades, NCR has acquired over 20 companies which has helped it in enhancing capabilities in different areas. The buyout of CimpleBox Inc. in March 2016 has enhanced its abilities in providing simplified SaaS-based back-office software to restaurant operators and retailers. January 2014 acquisition of Digital Insight strengthened NCR's online and mobile banking solutions offerings while the Alaric Systems solidified its online transaction security software and fraud prevention solutions portfolio. Apart from this, NCR's acquisitions of POS Integrated Solutions Do Brasil Comercio E Servicos De Informatica S.A., RDS South America Comercio E Servicos De Informatica S.A., Wyse Sistemas de Informatica Ltda., Transoft, Inc. and uGenius Technology, Inc. in 2012 have also strengthened its product and service offerings across the financial services, hospitality and retail verticals. With the acquisition of Radiant Systems Inc. in 2011, NCR became a key provider of retail and hospitality POS terminals. We believe that further acquisitions will add to NCR's growth.

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## Reasons To Sell:

- ▼ NCR's sales are affected by seasonality, with lower revenues in the first quarter and higher revenues in the fourth quarter of each year. Such seasonal nature of the business leads to fluctuation in cash flows and makes it difficult for the company to determine working capital requirements. These factors make forecasting difficult and may negatively affect the company's ability to project financial results accurately.
- ▼ The persistent softness in the Hardware segment, which brings in a significant percentage of total revenues, makes us cautious about the company's near-term performance.
- ▼ NCR operates in the intensely competitive technology industry, which is characterized by rapidly changing technology, disruptive technological innovation, evolving industry standards, frequent new product introductions, price and cost reductions, and increasingly greater commoditization of products, making differentiation difficult. Competition with bigwigs in the industry, such as Fidelity, Fiserv, First Data Corporation, HP, Diebold, Nautilus Hyosung, Toshiba Tec, Oracle among others exposes the company to significant pricing pressure.
- ▼ NCR also has a leveraged balance sheet. The company's total debt (including current maturities) increased to \$4.7 billion as of Mar 31, 2020 from \$3.9 billion as of Dec 31, 2019. Also, NCR's current total debt to total capital ratio of 0.82 is significantly higher than the industry average of 0.63. Moreover, the times interest earned ratio of 2.6 is way lower than the industry average of 6.9. Additionally, the total debt level of \$4.7 billion as of Dec 31, 2019 is much more than cash and cash equivalents of \$1.2 billion. This makes us slightly cautious about the company's liquidity position and debt serving capabilities.
- ▼ In order to strengthen its liquidity position amid the coronavirus outbreak, NCR suspended its share repurchase program and merger and acquisition activities, and cut senior employee salaries, among other cost-cutting steps. Additionally, on Mar 24, the company withdrew the remaining available funds of \$630 million from its five-year, \$1.1-billion revolving credit facility.

Softness in the Software business in various markets, intense competition and a high debt burden remain concerns.

## Last Earnings Report

### NCR Q1 Earnings Miss Estimates, Revenues Match

NCR's first-quarter 2020 non-GAAP earnings of 31 cents per share missed the Zacks Consensus Estimate by 3.12%. On a year-over-year basis, the metric decreased 1.2%.

The company's revenues of \$1.5 billion matched the consensus mark. The figure, however, decreased 2% year over year on a reported basis and 1% at constant currency (CC).

The coronavirus outbreak had an adverse impact on the business. Moreover, a tornado destroyed its fulfillment center near Nashville, TN, in March, hurting the business further. Both events had a combined impact of \$75-\$80 million, primarily affecting hardware and attached software sales.

Further, foreign exchange headwinds were an added woe.

Previous guidance for 2020 was withdrawn as the company is still assessing the potential impacts of the pandemic.

### Quarter Details

Banking revenues increased 1% on a reported basis and 3% at cc year over year, driven by strong demand for software and service solutions, partially offset by an 8% decline in ATM revenues due to coronavirus-related disruptions and a 2% year-over-year impact of foreign currency fluctuations.

Retail revenues fell 8% on a reported basis and 7% at cc, due to the pandemic and the Nashville fulfillment center crises. Moreover, a large customer rollout in the prior-year quarter led to a difficult year-over-year comparison. Also, a 1% year-over-year impact of foreign currency fluctuations added to the segment's concerns.

Hospitality revenues decreased 12% on both reported and cc basis, due to pandemic-related demand issues and the Nashville outage.

The company's Digital Banking Solution witnessed positive momentum and added eight new customers. The acquisition of D3 Technology in the prior quarter drove revenues for the business.

In Digital First Restaurant, the company continued to see traction in Aloha Essentials. Notably, NCR added 372 Aloha Essentials sites as subscription bundles.

### Margins

Non-GAAP gross profit of \$404 million was down 4.9% year over year. Non-GAAP gross margin expanded 80 basis points to 26.9%. Decrease in hardware volumes across all segments was an overhang. However, higher software revenues partially offset these adversities.

Non-GAAP operating expenses were \$300 million, up 7.9% due to increased expenses from acquisitions completed in the prior year and higher account receivable reserves. Increased investments in strategic growth platforms also added to higher operating expenses.

Non-GAAP operating income of \$104 million fell 29.3% year over year.

### Other Financial Details

NCR ended the quarter with cash and cash equivalents of \$1.2 billion compared with \$509 million in the December quarter.

Free cash outflow was \$15 million against an inflow of \$296 million in the prior quarter.

Net cash provided by operating activities was \$61 million.

Notably, cash provided by operating activities and free cash outflow in the first quarter of 2020 included insurance proceeds worth \$25 million for the inventory loss from the Nashville Global Fulfillment Center damage.

In order to strengthen its liquidity position, NCR suspended its share repurchase program and merger and acquisition activities, and cut senior employee salaries, among other cost-cutting steps. Additionally, on Mar 24, the company withdrew the remaining available funds of \$630 million from its five-year, \$1.1-billion revolving credit facility. Moreover, it recently issued \$400 million of senior unsecured notes.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	0.22%
EPS Surprise	-3.12%
Quarterly EPS	0.31
Annual EPS (TTM)	2.65

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## Recent News

On Apr 28, 2020, NCR revealed that Vermont-based Brattleboro Savings & Loan (BS&L) has selected its DI platform to provide customers and businesses a superior digital banking experience.

On Apr 7, 2020, NCR prices senior notes offering worth \$400 million. Senior notes would provide annualized interest of 8.125% and would mature in 2025.

On Apr 3, 2020, NCR announces partnering with NYMBUS to facilitate loans for small businesses.

On Jan 13, 2020, NCR announce a five-year services contract with Ahold Delhaize to transform support for the retailer's stores in the Netherlands.

On Jan 12, 2020, NCR was selected by Specialty Beverage Retailer, BevMo to drive digital transformation.

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## Valuation

Shares of NCR lost 35.6% in the year-to-date (YTD) period and 30.2% over the trailing 12-month time frame. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have fallen 3.1% and inched up 8.7% YTD, respectively. Over the past year, while the Zacks sub-industry decreased 1.3%, the sector gained 24.4%.

The S&P 500 Index has inched up 0.2% YTD and increased 11.9% in the past year.

The stock is currently trading at 11.62X forward 12-month earnings, comparing with 11.36X for the Zacks sub-industry, 25.28X for the Zacks sector and 23.35X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.78X and as low as 4.15X with a 5-year median of 9.97X. Our Neutral recommendation indicates the stock to perform in-line with the market. Our \$24 price target reflects 12.2X forward 12-month earnings.

The table below shows the summary valuation data for NCR

Valuation Multiples - NCR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.62	11.36	25.28	23.35
	5-Year High	14.78	18.34	25.28	23.35
	5-Year Low	4.15	7.94	16.72	15.23
	5-Year Median	9.97	10.34	19.28	17.49
EV/EBITDA TTM	Current	8.60	8.26	12.4	11.97
	5-Year High	11.13	10.86	12.72	12.85
	5-Year Low	5.18	3.92	7.57	8.25
	5-Year Median	7.21	8.42	10.73	10.81
P/S F12M	Current	0.40	1.11	3.53	3.22
	5-Year High	0.91	1.95	3.59	3.44
	5-Year Low	0.22	0.76	2.32	2.54
	5-Year Median	0.60	1.54	3.10	3.01

As of 06/08/2020

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## Industry Analysis Zacks Industry Rank: Bottom 41% (149 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
FARO Technologies, Inc. (FARO)	Outperform	1
Agilysys, Inc. (AGYS)	Neutral	4
Iteris, Inc. (ITI)	Neutral	3
PAR Technology Corporation (PAR)	Neutral	4
USA Technologies, Inc. (USAT)	Neutral	3
CSP Inc. (CSPI)	NA	NA
Datalex PLC (DLEXY)	NA	NA
Image Sensing Systems, Inc. (ISNS)	NA	NA

Industry Comparison Industry: Computer - Integrated Systems				Industry Peers		
	NCR	X Industry	S&P 500	FARO	PAR	USAT
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	1	4	3
VGM Score	C	-	-	C	F	F
Market Cap	2.89 B	467.83 M	23.56 B	1.05 B	493.49 M	442.17 M
# of Analysts	6	2	14	1	2	2
Dividend Yield	0.00%	0.00%	1.8%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	F	F
Cash/Price	0.45	0.15	0.06	0.16	0.12	0.08
EV/EBITDA	7.01	-20.93	13.19	-21.38	-72.66	-20.48
PEG Ratio	3.11	3.53	3.18	NA	NA	NA
Price/Book (P/B)	2.82	3.30	3.19	3.32	6.47	3.88
Price/Cash Flow (P/CF)	3.80	7.70	12.52	34.74	NA	NA
P/E (F1)	12.46	13.54	23.31	95.77	NA	NA
Price/Sales (P/S)	0.42	1.72	2.51	2.86	2.50	2.75
Earnings Yield	7.37%	0.62%	4.15%	1.04%	-4.07%	-3.48%
Debt/Equity	4.31	0.17	0.76	0.04	1.35	0.15
Cash Flow (\$/share)	5.97	0.01	7.01	1.71	-0.13	-0.40
Growth Score	D	-	-	A	F	F
Hist. EPS Growth (3-5 yrs)	-0.85%	-0.85%	10.87%	-17.75%	24.53%	NA
Proj. EPS Growth (F1/F0)	-40.45%	-22.59%	-10.76%	117.32%	-92.98%	-223.68%
Curr. Cash Flow Growth	10.40%	-1.75%	5.48%	13.79%	621.28%	595.20%
Hist. Cash Flow Growth (3-5 yrs)	0.23%	-3.43%	8.55%	-4.05%	NA	NA
Current Ratio	1.57	1.83	1.29	2.90	3.48	1.29
Debt/Capital	82.44%	14.69%	44.75%	3.87%	57.38%	13.08%
Net Margin	6.84%	-4.49%	10.59%	-20.98%	-12.04%	-20.14%
Return on Equity	46.19%	-1.06%	16.26%	1.43%	-26.06%	-21.80%
Sales/Assets	0.78	0.83	0.55	0.74	1.09	0.85
Proj. Sales Growth (F1/F0)	-11.31%	-2.70%	-2.62%	-14.98%	12.73%	19.66%
Momentum Score	C	-	-	F	B	A
Daily Price Chg	7.35%	0.00%	1.55%	-1.41%	-4.99%	-1.57%
1 Week Price Chg	16.90%	7.02%	7.51%	7.02%	13.83%	-2.10%
4 Week Price Chg	22.37%	10.73%	15.61%	10.21%	15.20%	10.59%
12 Week Price Chg	70.81%	38.14%	38.10%	39.95%	133.79%	29.51%
52 Week Price Chg	-30.14%	-4.30%	3.66%	24.30%	-7.84%	-9.58%
20 Day Average Volume	1,104,821	94,200	2,648,536	94,200	335,730	60,784
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	7.17%	0.00%
(F1) EPS Est 12 week change	-39.95%	-39.95%	-15.97%	-48.33%	-77.42%	-12.07%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	8.70%	0.00%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>C</b>
VGM Score	<b>C</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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