

NCR Corporation (NCR)

\$21.20 (As of 08/10/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

NCR's second-quarter revenues and earnings declined year-over-year. The company's near-term growth prospects likely to hurt by the coronavirus-led demand delays. It has also withdrawn its previous guidance for 2020 as it is still assessing the potential impacts of the pandemic, which is discouraging. Decline in ATM revenues amid coronavirus crisis also remain a headwind. Foreign exchange headwinds remain an added woe. Moreover, growing competition from companies like Diebold and Fidelity is a persistent concern. Nonetheless, strong demand for software and service solutions across banking and financial services has somewhat offsets the adverse impact of coronavirus. Moreover, the acquisition of D3 Technology is likely to drive the top-line. Besides, in Digital First Restaurant, the company continued to see traction in Aloha Essentials.

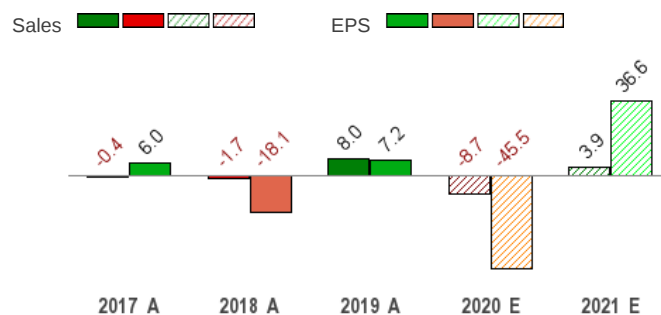
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.87 - \$10.55
20 Day Average Volume (sh)	1,227,167
Market Cap	\$2.7 B
YTD Price Change	-39.7%
Beta	1.70
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Integrated Systems
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	50.0%
Last Sales Surprise	11.2%
EPS F1 Est- 4 week change	6.4%
Expected Report Date	11/05/2020
Earnings ESP	2.1%
P/E TTM	9.8
P/E F1	14.0
PEG F1	3.5
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,563 E
2020	1,503 A	1,484 A	1,532 E	1,777 E	6,315 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	\$0.33 E	\$0.46 E	\$0.52 E	\$0.74 E	\$2.09 E
2020	\$0.31 A	\$0.27 A	\$0.33 E	\$0.64 E	\$1.53 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 08/10/2020. The reports text is as of 08/11/2020.

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.

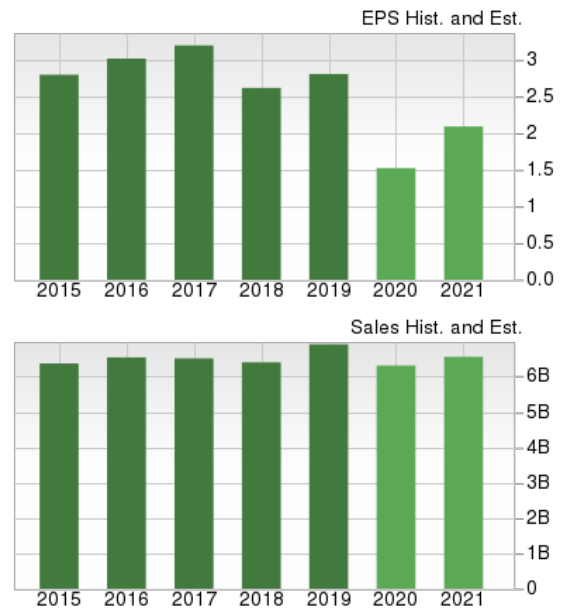
The Software segment (29.1% of total 2019 revenues) include industry-focused software platforms such as multi-vendor ATM software application suite for financial services, frictionless commerce, Outdoor Payment Terminals with an Interactive Consumer experience (OPTIC), Aloha POS Platform, end-to-end 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.



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.

Reasons To Sell:

- ▼ NCR's near-term growth prospects likely to hurt by the coronavirus-led demand delays. The company has also withdrawn its previous guidance for 2020 as it is still assessing the potential impacts of the pandemic, which is discouraging. Decline in ATM revenues amid coronavirus crisis also remain a headwind.
- ▼ 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 \$5 billion as of Jun 30, 2020 from \$4.7 billion as of Mar 31, 2020. 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 2.2 is way lower than the industry average of 6.9. Additionally, the total debt level of \$5 billion as of Jun 30, 2020 is much more than cash and cash equivalents of \$1.7 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.

NCR's near-term growth prospects likely to hurt by the coronavirus-led demand delays. Intense competition and a high debt burden remain added concerns.

Last Earnings Report

NCR Q2 Earnings and Revenues Beat Estimates, Decline Y/Y

NCR Corporation's second-quarter 2020 non-GAAP earnings of 27 cents per share handily outpaced the Zacks Consensus Estimate of 18 cents. However, the reported figure plummeted 64.5% on lower revenues, year over year.

The company's revenues of \$1.48 billion surpassed the consensus mark of \$1.33 billion. The revenue figure, however, decreased 13% year over year on a reported basis and 12% at constant currency (CC).

The coronavirus outbreak had an adverse impact on the business. Moreover, a shift from selling perpetual software licenses to recurring revenues hurt quarterly revenues by \$22 million. Additionally, adverse foreign-currency fluctuations negatively impacted the top line by 1%.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	11.18%
EPS Surprise	50.00%
Quarterly EPS	0.27
Annual EPS (TTM)	2.16

Quarter Details

Banking revenues slid 12% on a reported basis and 11% at cc year over year, due to the pandemic-induced 25% decline in ATM hardware revenues. Shift from selling perpetual software licenses to recurring revenues also affected the year-over-year comparison. Unfavorable currency exchange rates hurt the Banking segment's top-line performance by 1%.

Retail revenues fell 13% on both reported and cc basis, due to the pandemic. Moreover, a large customer rollout in the prior-year quarter resulted in a dismal year-over-year comparison.

Hospitality revenues slipped 21% on a reported basis and 20% at cc, on the pandemic-related demand issues. Also, a 1% year-over-year impact of foreign-currency fluctuations added to the segment's concerns.

The company's Digital Banking Solution witnessed positive momentum and added 18 new customers. The acquisition of D3 Technology drove revenues as well.

Margins

Non-GAAP gross profit of \$381 million was down 21.8% year over year. Non-GAAP gross margin contracted 280 basis points to 25.7%. Lower revenues due to the pandemic and shift to recurring revenues are the key reasons behind the declines in gross profit and margin.

Non-GAAP operating expenses declined 10.2% year on year to \$265 million, mainly on the company's cost-cutting initiatives to address the business impact of the coronavirus pandemic. Its cost-cutting measures, included salary reductions, curtailing travels, and elimination of certain contractors.

Non-GAAP operating income declined to \$116 million from the year-ago quarter's \$192 million.

Other Financial Details

NCR ended the June-end quarter with cash and cash equivalents of \$1.68 billion compared with the \$1.2 billion reported in the March-end quarter.

Free cash inflow was \$171 million against an outflow of \$15 million witnessed in the prior quarter.

Net cash provided by operating activities was \$229 million.

Notably, 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 during the first quarter.

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, on Apr 13, the company issued \$400 million of senior unsecured notes.

Recent News

On Jun 22, 2020, NCR announced that Timothy C. Oliver would be joining the company as its new Chief Financial Officer effective July 13, 2020.

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.

Valuation

Shares of NCR lost 39.7% in the year-to-date (YTD) period and 32.2% over the trailing 12-month time frame. Stocks in the Zacks sub-industry have fallen 11% YTD, while the Zacks Computer & Technology sector gained 20.4%. Over the past year, while the Zacks sub-industry decreased 8.6%, the sector gained 37.3%.

The S&P 500 Index has increased 3.9% YTD, and 16.4% in the past year.

The stock is currently trading at 11.32X forward 12-month earnings, comparing with 10.4X for the Zacks sub-industry, 26.3X for the Zacks sector and 22.75X 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 9.94X. Our Neutral recommendation indicates the stock to perform in-line with the market. Our \$22 price target reflects 11.9X 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 F12M	Current	11.32	10.40	26.30	22.75
	5-Year High	14.78	18.34	26.31	22.75
	5-Year Low	4.15	7.94	16.72	15.25
	5-Year Median	9.94	10.34	19.61	17.58
P/S F12M	Current	0.42	1.31	4.07	3.66
	5-Year High	0.92	1.87	4.07	3.66
	5-Year Low	0.22	0.76	2.32	2.53
	5-Year Median	0.58	1.47	3.14	3.05
EV/EBITDA TTM	Current	10.01	8.38	13.36	12.62
	5-Year High	11.13	10.86	13.51	12.84
	5-Year Low	5.18	3.92	7.59	8.24
	5-Year Median	7.21	8.55	10.90	10.90

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Agilysys, Inc. (AGYS)	Neutral	2
Cardtronics PLC (CATM)	Neutral	2
Diebold Nixdorf, Incorporated (DBD)	Neutral	3
FARO Technologies, Inc. (FARO)	Neutral	4
International Business Machines Corporation (IBM)	Neutral	4
Iteris, Inc. (ITI)	Neutral	2
PAR Technology Corporation (PAR)	Neutral	3
USA Technologies, Inc. (USAT)	Neutral	4

Industry Comparison Industry: Computer - Integrated Systems				Industry Peers		
	NCR	X Industry	S&P 500	FARO	PAR	USAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	4
VGM Score	A	-	-	D	F	D
Market Cap	2.72 B	460.94 M	23.56 B	1.07 B	626.73 M	460.94 M
# of Analysts	6	3	14	1	2	3
Dividend Yield	0.00%	0.00%	1.71%	0.00%	0.00%	0.00%
Value Score	A	-	-	F	F	F
Cash/Price	0.65	0.16	0.07	0.16	0.10	0.06
EV/EBITDA	6.71	-21.70	13.39	-21.70	-90.71	-21.94
PEG Ratio	3.63	3.10	2.92	NA	NA	NA
Price/Book (P/B)	2.42	3.12	3.18	3.45	8.21	4.39
Price/Cash Flow (P/CF)	3.55	7.37	12.69	35.11	NA	NA
P/E (F1)	14.50	13.90	22.16	NA	NA	NA
Price/Sales (P/S)	0.41	1.65	2.55	3.19	3.15	2.77
Earnings Yield	7.17%	2.85%	4.33%	-0.50%	-3.20%	-1.12%
Debt/Equity	4.28	0.15	0.77	0.04	1.35	0.17
Cash Flow (\$/share)	5.97	0.01	6.94	1.71	-0.13	-0.40
Growth Score	B	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	-3.01%	-3.01%	10.41%	-16.02%	3.06%	NA
Proj. EPS Growth (F1/F0)	-45.73%	-20.77%	-6.51%	91.62%	-92.98%	82.03%
Curr. Cash Flow Growth	10.40%	2.09%	5.26%	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	1.80	2.09	1.34	2.93	3.48	1.18
Debt/Capital	82.26%	13.53%	44.59%	3.64%	57.38%	13.87%
Net Margin	6.72%	-0.77%	10.13%	-23.80%	-15.91%	-22.48%
Return on Equity	31.37%	-2.35%	14.59%	-1.16%	-26.82%	-25.53%
Sales/Assets	0.72	0.85	0.51	0.70	1.04	0.88
Proj. Sales Growth (F1/F0)	-8.67%	0.00%	-1.54%	-23.51%	12.73%	13.32%
Momentum Score	C	-	-	F	F	A
Daily Price Chg	5.42%	0.56%	0.91%	-1.07%	-0.72%	0.56%
1 Week Price Chg	9.12%	1.94%	2.30%	1.39%	12.45%	-0.42%
4 Week Price Chg	25.37%	15.79%	8.54%	21.35%	19.90%	1.71%
12 Week Price Chg	14.84%	8.26%	13.68%	8.26%	37.97%	9.01%
52 Week Price Chg	-32.20%	-5.23%	3.71%	22.30%	49.17%	1.56%
20 Day Average Volume	1,227,167	119,688	2,015,804	119,688	210,366	89,805
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-148.39%	0.00%	0.00%
(F1) EPS Est 4 week change	6.40%	0.00%	1.67%	-148.39%	0.00%	0.00%
(F1) EPS Est 12 week change	-8.86%	-5.37%	2.27%	-148.39%	0.00%	-1,166.67%
(Q1) EPS Est Mthly Chg	14.09%	0.00%	0.67%	-253.85%	0.00%	0.00%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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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