

NCR Corporation (NCR)

\$34.99 (As of 01/21/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/04/19)

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

Strength in Banking segment, Self-Service portfolio, higher ATM orders and significant benefits from the JetPay acquisition are driving NCR's growth. Continuous deals are boosting the Digital Banking Solutions segment. NCR continues to focus on cost-saving initiatives, which are expected to result in considerable savings in 2019. Estimates have been stable lately ahead of the company's Q4 earnings release. The company has a positive record of earnings surprises in the recent quarters. Shares have outperformed the industry over the past year. However, the company is affected by a highly leveraged balance sheet. Intense competition remains another concern. Growing competition from companies like Diebold and Fidelity is a major concern. The persistent softness in the Hardware segment makes us cautious about the company's near-term performance.

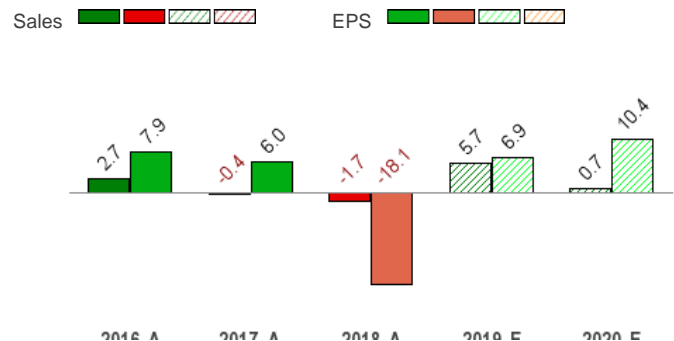
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.87 - \$25.32
20 Day Average Volume (sh)	520,796
Market Cap	\$4.5 B
YTD Price Change	-0.5%
Beta	1.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Integrated Systems
Zacks Industry Rank	Bottom 29% (182 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.0%
Last Sales Surprise	11.3%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	12.5
P/E F1	11.3
PEG F1	2.8
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					6,820 E
2019	1,536 A	1,710 A	1,783 A	1,730 E	6,770 E
2018	1,517 A	1,537 A	1,550 A	1,801 A	6,405 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.55 E	\$0.71 E	\$0.81 E	\$1.05 E	\$3.09 E
2019	\$0.48 A	\$0.76 A	\$0.73 A	\$0.84 E	\$2.80 E
2018	\$0.56 A	\$0.65 A	\$0.58 A	\$0.84 A	\$2.62 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 01/21/2020. The reports text is as of 01/22/2020.

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, 2018, NCR reported approximately 34,000 employees and contractors worldwide. NCR's reportable segments are Software, Services and Hardware.

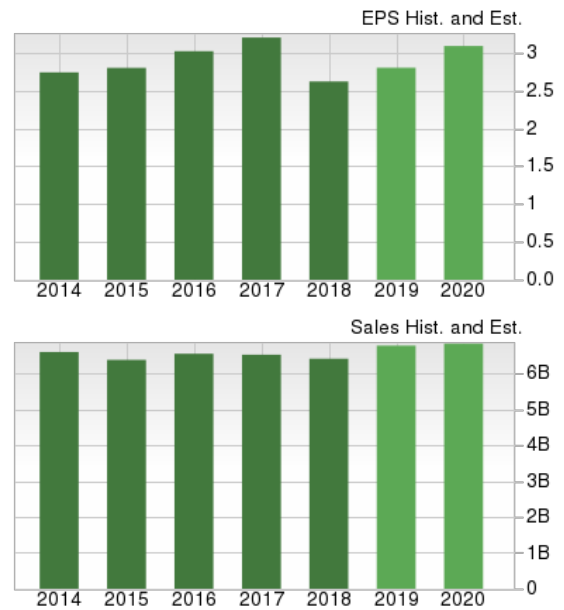
The Software segment (29.9% of total 2018 revenues) include industry-focused software platforms such as multi-vendor ATM software application suite for financial services, frictionless commerce, Outdoor Payment Terminals with an Interactive Consumer experience (OPTIC), Aloha POS Platform, end-to-end 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 (38.4%) 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 (31.7%) 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 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 has a highly leveraged balance sheet. The company had a long-term debt position of \$3.42 billion with cash and cash equivalents of only \$388 million at the end of third-quarter 2019. Thus, it had to constantly generate adequate amount of operating cash flow to service its debt.
- ▼ 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.

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

Last Earnings Report

NCR Beats on Q3 Earnings and Revenues

NCR Corporation (NCR) third-quarter 2019 non-GAAP earnings of 73 cents per share surpassed the Zacks Consensus Estimate of 67 cents. On a year-over-year basis, the figure increased 25.9%.

The company's revenues of \$1.78 billion topped the consensus estimate of \$1.60 billion. The figure increased 15% year over year on a reported basis and 17% in constant currency (CC).

Growth across each of the segments, particularly banking drove the top line.

Quarter Details

Banking revenues increased 18% on a reported basis and 21% in CC, primarily due to 60% CC growth in ATM revenues driven by higher backlog conversion and strong order rates.

Software related to ATMs contributed considerably to the year-over-year increase in Banking revenues, with growth in hardware maintenance backlog and a future annuity stream from large customer wins in the quarter.

Strength in ATM replacement cycle, particularly in the Americas and Europe, and upgrades on Windows 10, were significant revenue drivers for the segment.

Retail revenues rose 12% on a reported basis and 13% in CC, driven by revenue contribution of JetPay and solid traction in self-checkout solution. Higher hardware maintenance activity and several new managed service contracts benefited the segment.

Hospitality revenues increased 12% on a reported basis and 13% in CC, driven by higher cloud revenues from NCR Silver and Aloha products, payments revenues from the JetPay acquisition, and increase in point-of-sale revenues.

The company's Digital Banking Solution witnessed solid growth. NCR launched some new features in the third quarter that increased revenues from new and existing customers while improving retention rate. During the quarter, it signed 29 recurring contract deals that would have been an upfront payment in the past.

NCR completed the acquisition of D3 Technology early in the third quarter. Notably, the clinical services provider NYMBUS licensed the D3 Digital Banking platform shortly after the acquisition was completed.

In Digital First Restaurant, NCR witnessed early success in its bundle of software, services, hardware and payments, Aloha Essentials. Notably, 65% of all SMB Aloha sites sold through its direct sales channel were sold as an Aloha Essentials subscription bundle.

Digital Connected Services continued to witness an expansion of customer base.

Margins

Non-GAAP gross profit of \$513 million was up 20.7% year over year. Non-GAAP gross margin expanded 140 basis points to 28.8%.

Non-GAAP operating expenses were \$311 million, up 17.8% due to higher employee-related and real estate costs.

Non-GAAP operating income of \$202 million increased 25.5% year over year.

Operating income from Banking grew 47% in CC, driven by a favorable mix for ATMs, and higher software margin related to ATMs.

Operating income of the Retail segment rose 28% in CC primarily driven by improved hardware profitability.

Operating income of the Hospitality segment decreased 34% in CC due continued investment in NCR Silver and NCR Aloha.

Balance Sheet & Other Financial Details

NCR exited the quarter with cash and cash equivalents of approximately \$388 million, up from \$335 million reported in the previous quarter.

The company ended the third quarter with \$3.42 billion of long-term debt compared with \$2.92 billion in the second quarter.

Free cash flow was \$57 million against outflow of \$9 million in the prior quarter.

Outlook

The company raised full-year 2019 revenue guidance. It now expects 5-6% year-over-year revenue growth, up from previously predicted 3-4% rise.

NCR reiterated outlook for full-year 2019 earnings, net income and cash flow. Non-GAAP earnings per share are expected to be between \$2.75 and \$2.85.

Cash flow from operations is estimated to be between \$705 million and \$730 million and free cash flow is likely to be \$300-\$350 million.

Unusually strong revenue growth in the fourth quarter of last year is expected to make year-over-year comparison difficult.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	11.25%
EPS Surprise	8.96%
Quarterly EPS	0.73
Annual EPS (TTM)	2.81

Notably, majority of NCR's annual free cash flow is typically generated in the fourth quarter. This is expected to reflect positively in the balance sheet.

Recent News

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.

On Dec 23, 2019, NCR announced the acquisition of Edge Virtualization Technology Provider Zynstra to expand product offerings.

On Nov 19, 2019, NCR announced the acquisition of point-of-sale and restaurant solutions provider POS Solutions, further expanding the reach of NCR's restaurant technology.

On Sep 4, 2019, NCR announced that Northgate González Market has deployed its cloud-enabled POS platform, NCR Emerald, on a subscription basis for grocery retailers.

On the same day, NCR also launched SelfServ, a cash recycling ATM.

On Jul 2, 2019, NCR acquired the online and mobile banking company, D3 Technology, to expand NCR Digital Banking into new market segments.

Valuation

Shares of NCR surged 14.2% in the six months period and 37% over the trailing 12-month time frame. Stocks in the Zacks sub-industry are down 4.7% while the Zacks Computer & Technology sector are up 15.8% in the six months period. Over the past year, while the Zacks sub-industry has gained 9.3%, the sector inched up 34.5%.

The S&P 500 Index has gained 11.2% in the six months period and 25.1% in the past year.

The stock is currently trading at 11.31X forward 12-month earnings, comparing with 10.24X for the Zacks sub-industry, 23.1X for the Zacks sector and 19.13X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.78X and as low as 6.53X with a 5-year median of 10.08X. Our Neutral recommendation indicates the stock to perform in-line with the market. Our \$37 price target reflects 11.97X 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	11.31	10.24	23.1	19.13
	5-Year High	14.78	18.34	23.1	19.34
	5-Year Low	6.53	8.08	16.87	15.17
	5-Year Median	10.08	10.33	19.24	17.44
EV/EBITDA TTM	Current	8.14	8.21	12.71	12.38
	5-Year High	9.67	10.82	12.71	12.86
	5-Year Low	5.18	3.92	7.68	8.48
	5-Year Median	7.2	8.27	10.52	10.67
P/S F12M	Current	0.65	1.41	3.74	3.56
	5-Year High	0.92	1.87	3.74	3.56
	5-Year Low	0.38	0.76	2.3	2.54
	5-Year Median	0.61	1.53	3.01	3

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (182 out of 255)



Top Peers

Diebold Nixdorf, Incorporated (DBD)	Outperform
Cardtronics PLC (CATM)	Neutral
Euronet Worldwide, Inc. (EFT)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Fiserv, Inc. (FISV)	Neutral
HP Inc. (HPQ)	Neutral
International Business Machines Corporation (IBM)	Neutral
Nautilus Group, Inc. (The) (NLS)	Neutral

Industry Comparison Industry: Computer - Integrated Systems				Industry Peers		
	NCR Neutral	X Industry	S&P 500	DBD Outperform	FIS Neutral	FISV Neutral
VGM Score	A	-	-	A	C	C
Market Cap	4.46 B	491.18 M	24.43 B	813.24 M	90.73 B	82.00 B
# of Analysts	6	2.5	13	2	13	13
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.95%	0.00%
Value Score	A	-	-	C	D	D
Cash/Price	0.09	0.10	0.04	0.31	0.01	0.01
EV/EBITDA	15.39	7.56	14.00	-27.06	37.26	44.75
PEG Ratio	2.86	1.66	2.06	NA	2.62	1.76
Price/Book (P/B)	6.11	3.39	3.39	NA	1.84	2.43
Price/Cash Flow (P/CF)	6.00	10.96	13.69	4.47	15.23	26.16
P/E (F1)	11.45	10.55	19.00	11.51	23.39	24.33
Price/Sales (P/S)	0.65	2.01	2.68	0.18	9.91	10.66
Earnings Yield	8.83%	-0.24%	5.26%	8.69%	4.27%	4.11%
Debt/Equity	5.20	0.11	0.72	-5.19	0.34	0.66
Cash Flow (\$/share)	5.83	0.35	6.94	2.37	9.69	4.61
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	0.58%	0.58%	10.60%	-22.46%	17.58%	16.43%
Proj. EPS Growth (F1/F0)	10.23%	8.39%	7.57%	866.67%	14.62%	23.71%
Curr. Cash Flow Growth	-21.18%	-14.68%	14.00%	-46.64%	10.67%	18.73%
Hist. Cash Flow Growth (3-5 yrs)	0.18%	-3.29%	9.00%	1.32%	16.71%	8.93%
Current Ratio	1.35	1.38	1.23	1.21	0.86	1.08
Debt/Capital	77.29%	13.17%	42.99%	NA	25.61%	39.69%
Net Margin	1.30%	-1.09%	11.15%	-7.53%	8.24%	12.11%
Return on Equity	79.96%	0.69%	17.16%	NA	12.07%	16.73%
Sales/Assets	0.84	0.88	0.55	1.09	0.22	0.26
Proj. Sales Growth (F1/F0)	0.75%	2.26%	4.05%	-1.63%	27.54%	6.99%
Momentum Score	C	-	-	A	B	B
Daily Price Chg	-1.71%	0.00%	-0.27%	-4.68%	0.36%	-0.06%
1 Week Price Chg	3.16%	1.34%	2.29%	-7.72%	3.63%	3.03%
4 Week Price Chg	0.09%	3.10%	2.13%	-3.29%	7.06%	3.41%
12 Week Price Chg	19.14%	4.99%	6.99%	52.15%	12.91%	14.48%
52 Week Price Chg	36.89%	20.38%	21.25%	168.10%	40.14%	54.25%
20 Day Average Volume	520,796	106,690	1,415,064	958,782	2,474,823	2,247,449
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.73%	0.16%	0.00%
(F1) EPS Est 4 week change	0.93%	0.00%	0.00%	0.73%	0.16%	0.18%
(F1) EPS Est 12 week change	-1.46%	-20.73%	-0.34%	-3.16%	0.98%	2.84%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.24%	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.

Disclosures

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