

NCR Corporation (NCR)

\$26.94 (As of 02/26/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

NCR's fourth-quarter results were affected by foreign exchange headwinds. Also, continued investments in services support and payments were an overhang on margins. Growing competition from companies like Diebold and Fidelity is a major concern. An expected decline in ATM hardware revenues makes us cautious about the segment's near-term performance. Shares of the company have underperformed the industry in the past six months. However, higher ATM orders and significant benefits from the JetPay acquisition drove NCR's quarterly results. Strong demand for software and service solutions drove the company's banking segment. Higher hardware maintenance activity and several new managed service contracts benefited the company. Notably, the recent acquisition of Zynstra is expected to bolster its next-generation store architecture.

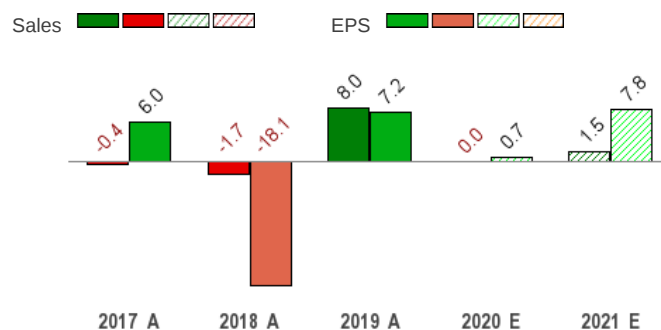
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.87 - \$25.51
20 Day Average Volume (sh)	906,281
Market Cap	\$3.4 B
YTD Price Change	-23.4%
Beta	1.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Integrated Systems
Zacks Industry Rank	Top 20% (50 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	9.0%
EPS F1 Est- 4 week change	-9.9%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	9.6
P/E F1	9.5
PEG F1	2.4
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,016 E
2020	1,547 E	1,697 E	1,760 E	1,886 E	6,913 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	\$0.59 E	\$0.80 E	\$0.82 E	\$1.02 E	\$3.05 E
2020	\$0.37 E	\$0.70 E	\$0.77 E	\$0.95 E	\$2.83 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 02/26/2020. The reports text is as of 02/27/2020.

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.

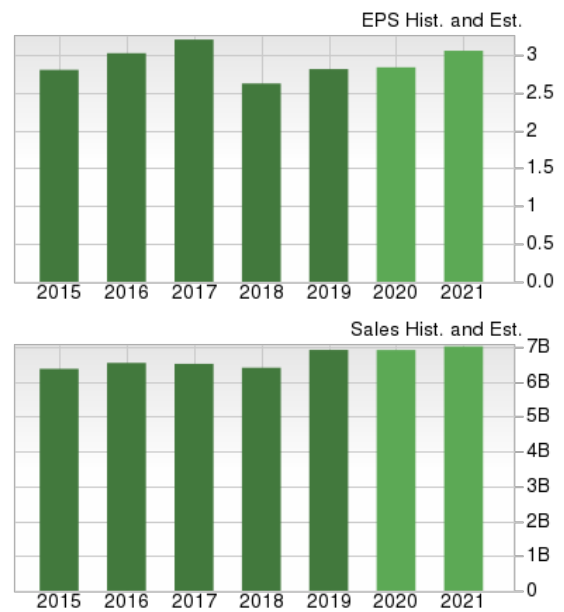
The Software segment (29.1% of total 2019 revenues) include industry-focused software platforms such as multi-vendor ATM software application suite for financial services, frictionless commerce, Outdoor Payment Terminals with an Interactive Consumer experience (OPTIC), Aloha POS Platform, end-to-end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

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

Risks

- 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.
 - 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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Last Earnings Report

NCR Q4 Earnings and Revenues Surpass Estimates

NCR's fourth-quarter 2019 non-GAAP earnings of 85 cents per share surpassed the Zacks Consensus Estimate by 1.2%. On a year-over-year basis, the metric increased 1.2%.

The company's revenues of \$1.89 billion topped the consensus estimate of \$1.73 billion. The figure increased 5% year over year on a reported basis and 6% in constant currency (CC).

Notably, the company completed the acquisition of Zynstra to bolster its next-generation store architecture.

Growth across each of the segments drove the top line. However, foreign currency fluctuations were an overhang.

Quarter Details

Banking revenues remained flat on a reported basis and increased 2% in CC, driven by strong demand for software and service solutions despite a partial shift of banking software to recurring revenues. Notably, NCR signed several deals in banking software during the quarter on a recurring basis.

For the year, banking revenues grew 13% year over year, driven by 33% growth in ATM hardware sales.

Retail revenues rose 10% on both reported basis and CC, driven by revenue contribution from JetPay and solid traction in self-checkout solution. Higher hardware maintenance activity and several new managed service contracts benefited the segment.

Hospitality revenues increased 5% on a reported basis as well as in CC, driven by higher cloud revenues from NCR Silver and Aloha products, payment revenues from the JetPay acquisition, and rise in point-of-sale revenues.

The company's Digital Banking Solution witnessed solid growth. During the quarter, it signed 52 recurring contract deals that would have been an upfront payment in the past. The acquisition of D3 Technology in the prior quarter drove revenues for the business.

In Digital First Restaurant, NCR witnessed early success in Aloha Essentials — its bundle of software, services, hardware and payments. Notably, 80% 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 the customer base.

Margins

Non-GAAP gross profit of \$541 million was up 9.9% year over year. Non-GAAP gross margin expanded 120 basis points to 28.7%. Non-GAAP operating expenses were \$324 million, up 15.3% due to higher employee-related and real estate costs.

Non-GAAP operating income of \$217 million inched up 1.4% year over year.

Operating income for Banking grew 14% year over year, driven by a favorable mix for ATMs, and higher software and service revenues.

Operating income for the Retail segment rose 21% year over year, primarily driven by improved hardware profitability.

Operating income of the Hospitality segment decreased 45% due to difficult year over year comparison, pertaining to the presence of several large customer installations in the prior-year quarter. Also, continued investment in services support and payments were an overhang. However, improved hardware profitability provided relief.

Other Financial Details

Free cash flow was \$296 million as compared with \$57 million in the prior quarter.

Net cash provided by operating activities was \$402 million.

2019 Highlights

For 2019, revenues increased 8% on a reported basis and 10% in CC. Banking, Retail and Hospitality revenues rose 10%, 6% and 3%, respectively, on a reported basis.

Non-GAAP earnings of \$2.81 per share were up 7.3% year over year.

Outlook

For 2020, the company anticipates 0-1% year-over-year revenue growth.

Non-GAAP earnings per share are expected to be between \$2.75 and \$2.85.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	9.00%
EPS Surprise	1.19%
Quarterly EPS	0.85
Annual EPS (TTM)	2.82

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.

Valuation

Shares of NCR lost 9.6% in the six months period and 3.9% over the trailing 12-month time frame. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 4.3% and 14.6% in the past six months, respectively. Over the past year, while the Zacks sub-industry lost 1.1%, the sector grew 17.6%.

The S&P 500 index is up 8.4% in the past six months and 11% in the past year.

The stock is currently trading at 10.36X forward 12-month earnings, comparing with 8.19X for the Zacks sub-industry, 20.91X for the Zacks sector and 17.81X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 10.36X and as low as 5.18X with a 5-year median of 7.19X. Our Underperform recommendation indicates the stock to perform worse than the market. Our \$23 price target reflects 8.81X 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	10.36	8.19	20.91	17.81
	5-Year High	10.36	10.82	22.04	19.34
	5-Year Low	5.18	3.92	16.87	15.18
	5-Year Median	7.19	8.29	19.32	17.47
EV/EBITDA TTM	Current	8.38	6.78	13.02	12.31
	5-Year High	9.78	11.1	13.02	12.85
	5-Year Low	5.18	3.89	7.68	8.47
	5-Year Median	7.21	8.12	10.53	10.7
P/S F12M	Current	0.65	1.37	3.79	3.58
	5-Year High	0.92	1.84	3.79	3.58
	5-Year Low	0.38	0.74	2.3	2.54
	5-Year Median	0.64	1.51	3.02	3

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Top 20% (50 out of 254)



Top Peers

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

Industry Comparison Industry: Computer - Integrated Systems				Industry Peers		
	NCR Underperform	X Industry	S&P 500	DBD Neutral	FIS Neutral	FISV Neutral
VGM Score	A	-	-	A	D	B
Market Cap	3.44 B	545.46 M	22.59 B	552.15 M	88.69 B	76.74 B
# of Analysts	6	2.5	13	2	15	16
Dividend Yield	0.00%	0.00%	1.92%	0.00%	0.97%	0.00%
Value Score	A	-	-	B	D	D
Cash/Price	0.13	0.13	0.04	0.45	0.01	0.01
EV/EBITDA	7.99	-7.90	13.29	12.38	32.04	29.23
PEG Ratio	2.28	1.48	1.93	NA	2.55	1.60
Price/Book (P/B)	3.11	3.11	3.03	NA	1.79	2.22
Price/Cash Flow (P/CF)	4.52	11.09	12.33	2.56	17.69	16.85
P/E (F1)	9.14	9.99	17.79	5.80	22.86	22.74
Price/Sales (P/S)	0.50	1.93	2.47	0.13	8.58	7.53
Earnings Yield	10.50%	0.46%	5.60%	17.25%	4.37%	4.39%
Debt/Equity	3.29	0.15	0.70	-4.38	0.35	0.62
Cash Flow (\$/share)	5.97	0.35	7.02	2.80	8.13	6.70
Growth Score	C	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	0.13%	0.13%	10.85%	-23.96%	18.44%	17.05%
Proj. EPS Growth (F1/F0)	0.83%	5.46%	6.79%	985.71%	12.20%	24.09%
Curr. Cash Flow Growth	10.40%	-5.38%	6.53%	19.52%	57.47%	147.85%
Hist. Cash Flow Growth (3-5 yrs)	0.23%	-3.77%	8.38%	2.99%	26.53%	29.38%
Current Ratio	1.24	1.35	1.22	1.18	0.84	1.08
Debt/Capital	78.50%	14.69%	42.37%	NA	25.84%	38.74%
Net Margin	7.01%	-4.01%	11.57%	-7.74%	2.88%	8.77%
Return on Equity	59.60%	-1.00%	16.80%	NA	9.60%	11.78%
Sales/Assets	0.82	0.90	0.54	1.09	0.18	0.22
Proj. Sales Growth (F1/F0)	-0.03%	1.89%	4.06%	-4.19%	31.92%	50.36%
Momentum Score	B	-	-	A	B	B
Daily Price Chg	-4.13%	0.00%	-0.98%	-3.62%	-0.53%	-0.34%
1 Week Price Chg	-5.01%	0.00%	-0.94%	-7.06%	-1.59%	-2.31%
4 Week Price Chg	-20.97%	-3.74%	-6.27%	-37.21%	-2.83%	-5.97%
12 Week Price Chg	-16.72%	2.24%	-3.33%	-2.84%	6.01%	-1.67%
52 Week Price Chg	-3.89%	3.63%	6.81%	-19.40%	34.22%	32.71%
20 Day Average Volume	906,281	128,775	2,109,774	1,612,185	3,370,405	3,287,731
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.85%	-5.33%	-0.08%	34.78%	-0.27%	0.14%
(F1) EPS Est 12 week change	-9.02%	-0.74%	-0.22%	48.21%	-0.01%	0.35%
(Q1) EPS Est Mthly Chg	-33.09%	-33.09%	-0.61%	NA	-4.18%	-2.89%

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	C
Momentum Score	B
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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