

## Shift4 Payments, Inc

## New takeout reports in press

Reiterate Rating: BUY | PO: 95.00 USD | Price: 85.90 USD

## Media reports suggest FI, Amadeus competing for FOUR

FOUR traded up 12% today on media reports suggesting Fiserv (FI) and Amadeus (AMS, covered by Victor Cheng) could be competing to potentially acquire FOUR, with final offers reportedly due in coming weeks. None of the parties have confirmed these latest reports. This follows media reports in Dec. '23 that suggested Global Payments (GPN) was an interested suitor, which GPN subsequently denied. While we would be somewhat surprised to see either FI or Amadeus as buyers, today's news is consistent with ongoing public commentary from FOUR's Founder/CEO (as recently as yesterday's earnings call) regarding consideration of strategic alternatives. We reiterate our Buy rating, adjust results and raise our PO to \$95 from \$85 on robust fundamentals, attractive valuation (see pg. 3 for details).

## FOUR would be a bit inconsistent w/ FI's capital allocation

We would be somewhat surprised to see FI acquire FOUR, as this would be a departure from the capital allocation strategy FI management has articulated, emphasizing buybacks over M&A. At the Nov. '23 Analyst Day, FI's stated target leverage ratio was <3x. An all-stock deal for FOUR would likely make accretion challenging. An FI for FOUR deal would also present potential management integration issues given Jared Isaacman's role as FOUR's Founder/CEO (he also controls ~80% of voting power). We note that FI's Chairman & CEO Frank Bisignano, age 64, signed a new 5-year contract in Dec. 2022.

## We would not foresee antitrust issues

If FI were to buy FOUR, we would not see antitrust issues in the fragmented US merchant acquiring market. While FI is the 2<sup>nd</sup> largest US merchant acquirer, we estimate their market share at <20%, and FOUR's share in the ~1% range.

## AMS: currently only focused on B2B Travel solutions

Amadeus has been investing in B2B travel payments (<4% of revs) for over 10 years facilitating transactions between travel sellers and travel agencies. While FOUR could accelerate/broaden AMS' payment portfolio, we believe Amadeus remains focused on its B2B offerings with airlines and hotels, but not in other non-travel related verticals (e.g. restaurants). We also note that a FOUR deal would likely require AMS to breach its target leverage range of 1x-1.5x by close to 3x.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.40	2.83	3.65	4.70	5.17
GAAP EPS	1.08	1.42	2.86	4.00	5.17
EPS Change (YoY)	225.6%	102.1%	29.0%	28.8%	10.0%
Consensus EPS (Bloomberg)			3.72	4.77	4.92
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	61.4x	30.4x	23.5x	18.3x	16.6x
GAAP P/E	79.5x	60.5x	30.0x	21.5x	16.6x
EV / EBITDA*	29.6x	18.6x	13.1x	10.5x	8.5x
Free Cash Flow Yield*	3.6%	5.8%	7.8%	9.5%	11.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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**Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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28 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	85.00	95.00
2024E Rev (m)	3,696.4	3,623.7
2025E Rev (m)	4,583.6	4,534.8
2026E Rev (m)	NA	5,532.5
2024E EPS	3.91	3.65
2025E EPS	4.88	4.70
2026E EPS	NA	5.17

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## Stock Data

Price	85.90 USD
Price Objective	95.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	42.91 USD - 87.87 USD
Mrkt Val (mn) / Shares Out (mn)	7,200 USD / 83.8
Free Float	97.8%
Average Daily Value (mn)	79.62 USD
BofA Ticker / Exchange	FOUR / NYS
Bloomberg / Reuters	FOUR US / FOUR.N
ROE (2024E)	56.3%
Net Dbt to Eqty (Dec-2023A)	139.4%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Shift4 Payments, Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.8%	4.2%	9.5%	13.2%	14.8%
Return on Equity	38.8%	49.4%	56.3%	61.3%	45.2%
Operating Margin	4.8%	4.5%	8.1%	10.2%	11.2%
Free Cash Flow	261	416	564	680	854

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	1.8x	1.8x	1.6x	1.6x
Asset Replacement Ratio	0.2x	0.2x	0.2x	0.1x	0.1x
Tax Rate	0.2%	NM	15.0%	22.0%	24.0%
Net Debt-to-Equity Ratio	204.4%	139.4%	146.2%	80.1%	28.6%
Interest Cover	4.4x	NM	13.7x	38.6x	NM

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,994	2,565	3,624	4,535	5,533
% Change	45.8%	28.7%	41.3%	25.1%	22.0%
Gross Profit	470	688	966	1,214	1,499
% Change	68.9%	46.3%	40.5%	25.6%	23.5%
EBITDA	290	460	655	817	1,003
% Change	73.3%	58.8%	42.3%	24.8%	22.7%
Net Interest & Other Income	(8)	5	15	6	6
<b>Net Income (Adjusted)</b>	<b>119</b>	<b>245</b>	<b>334</b>	<b>430</b>	<b>537</b>
<b>% Change</b>	<b>229.0%</b>	<b>106.8%</b>	<b>36.1%</b>	<b>28.8%</b>	<b>24.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	87	123	261	366	473
Depreciation & Amortization	149	215	374	422	692
Change in Working Capital	17	(39)	(102)	(143)	(346)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	17	131	51	55	55
Capital Expenditure	(8)	(14)	(20)	(20)	(20)
<b>Free Cash Flow</b>	<b>261</b>	<b>416</b>	<b>564</b>	<b>680</b>	<b>854</b>
<b>% Change</b>	<b>NM</b>	<b>59.2%</b>	<b>35.7%</b>	<b>20.6%</b>	<b>25.5%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	(100)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	777	539	659	883	1,160
Trade Receivables	195	257	370	441	598
Other Current Assets	20	357	39	48	58
Property, Plant & Equipment	22	29	49	69	89
Other Non-Current Assets	1,540	2,206	1,791	1,791	1,791
<b>Total Assets</b>	<b>2,554</b>	<b>3,388</b>	<b>2,908</b>	<b>3,232</b>	<b>3,695</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	263	704	344	330	260
Long-Term Debt	1,742	1,750	1,752	1,752	1,652
Other Non-Current Liabilities	63	65	65	65	65
<b>Total Liabilities</b>	<b>2,068</b>	<b>2,519</b>	<b>2,160</b>	<b>2,147</b>	<b>1,977</b>
<b>Total Equity</b>	<b>472</b>	<b>868</b>	<b>748</b>	<b>1,085</b>	<b>1,718</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,540</b>	<b>3,388</b>	<b>2,908</b>	<b>3,232</b>	<b>3,695</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Computer Services

## Company Description

Shift4 Payments is a leading independent provider of integrated payment processing and technology solutions in the US. Headquartered in Allentown, PA, Shift4 employs over 700 full-time employees in the US, Lithuania and Canada. FOUR's technologies help power over 350 software providers in numerous industries, including hospitality and Food & Beverage. With over 7,000 sales partners, the company securely processed more than 3.5 billion transactions annually for over 200,000 businesses in 2019.

## Investment Rationale

We believe end-to-end conversions and share gains will continue to drive sustainable long term growth for the company, given FOUR's highly differentiated value proposition to merchants and robust payment and technology offering.

## Stock Data

Average Daily Volume 926,928

## Quarterly Earnings Estimates

	2023	2024
Q1	0.52A	0.76E
Q2	0.74A	0.90E
Q3	0.82A	0.95E
Q4	0.76A	1.03E

## Updating ests/PO; introducing '26 ests

Following 4Q23 results and initial '24 guidance, we adjust '24E net revs/adj. EBITDA/adj. EPS to \$1.33B/\$655M/\$3.65 from \$1.32B/\$649M/\$3.91 prior. We update our '25E net revs/adj. EBITDA/adj. EPS to \$1.64B/\$817M/\$4.70 from \$1.67B/\$832M/\$4.88 prior. We introduce '26E net revs/adj. EBITDA/adj. EPS of \$1.98B/\$1,003M/\$5.87.

We increase our PO to \$95 (from \$85 prior). Our PO is based on a blend of 20x our '25 EPS estimate (from '24E EPS prior) and our DCF model. Given FOUR's solid fundamentals and execution, we are comfortable now basing our PO on '25 estimates, and our target multiple represents just a slight premium to the S&P500, which we believe is justified by FOUR's growth profile. Our DCF assumes a weighted average cost of capital of 13% (from 14% prior on updated market inputs) and a terminal growth rate of 3%.



## Price objective basis & risk

### Shift4 Payments, Inc (FOUR)

We calculate our price objective of \$95 based on a blend of 20x our 2025 adj. EPS estimate and our DCF model. We apply a modest premium to the S&P500 given FOUR's higher growth prospects. Our DCF model assumes a WACC of 13% and long-term growth rate of 3%.

Risks: 1) macro pressure on the restaurant and hospitality industries, 2) end-to-end conversions fall short of internal expectations, 3) take rate compression from mix shift to larger merchants.

## Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg

**US - Payments, Processors, Specialty Finance and IT services Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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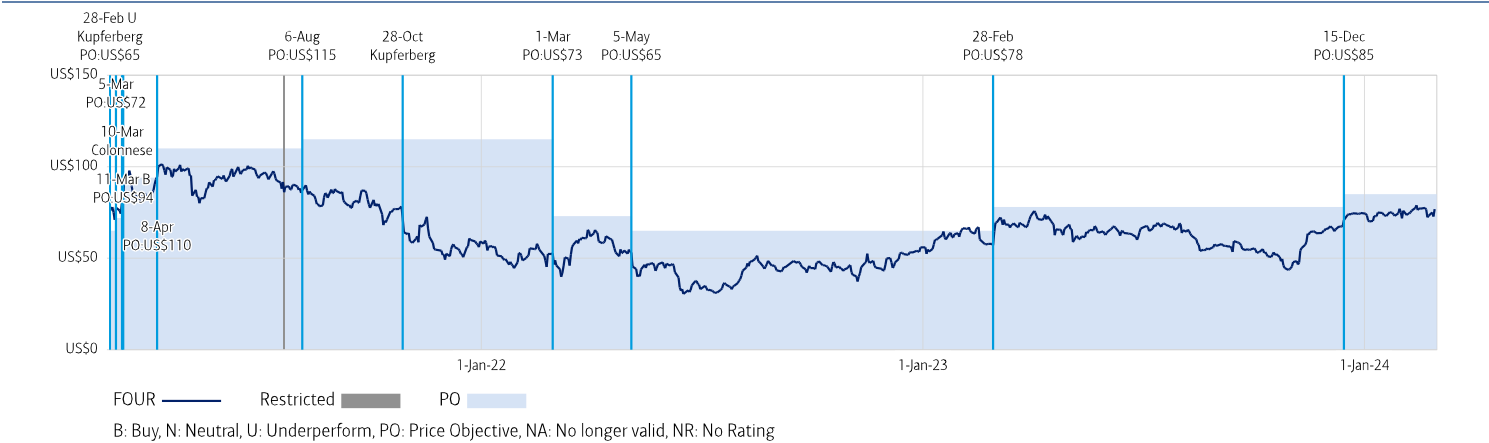
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Shift4 (FOUR) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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