

## Shift4 Payments, Inc

## Positive takeaways from management meetings; maintain Buy

Maintain Rating: BUY | PO: 78.00 USD | Price: 63.37 USD

## We hosted FOUR for investor meetings in NYC

Yesterday, we hosted investor meetings with FOUR's CEO Jared Isaacman and President & Chief Strategy Officer Taylor Lauber. Management struck a confident tone about FOUR's growth opportunities and discussed key topics such as take rates, Europe opportunity, and margin expansion initiatives. We maintain our Buy rating on FOUR's execution, significant growth opportunities (gateway volume conversion, new verticals, international expansion), and attractive valuation (19x C24E P/E).

## Ticketing and international could buoy take rates

FOUR is guiding to a net take rate this year of 65bps, down 8bps y/y due to mix effects following the ramp of larger merchants. Management believes that there could be net take rate stabilization beyond '23, as volumes from ticketing and int'l scale up starting next year. Ticketing is typically card-not-present and the delayed fulfillment nature of these transactions commands rates ~10bps higher than hotels (but below restaurants). Int'l spreads benefit from selling FX and fraud services. FOUR expects higher take rates in Europe (vs. US) for card not present transactions, though card present take rates in Europe are lower than the US due to lower interchange structures and more debit usage.

## Margin accretive initiatives in progress

FOUR has invested in a few internal initiatives to drive future margin expansion beyond '23: 1) upgrading talent while keeping headcount flat, driving higher productivity, 2) replacing homegrown CRM software with Salesforce to gain a more holistic view of customers (lower attrition), and 3) building important tech integrations (ie, with major ticketing platforms) which will benefit from high operating leverage as volumes scale, while gradually sunseting legacy POS platforms and integrations.

## Other takeaways

1) Go-to-market strategy for Europe include POS partnerships, selling SkyTab, leveraging the pending Finaro acquisition, and winning eCommerce volumes via existing relationships with large merchants in US; 2) FOUR's M&A focus is primarily on international opportunities, and target pipeline is robust; 3) overall same-store-sales were stable in July vs. Q2; 4) FOUR will continue using pricing "sticks" to help drive conversion of more gateway-only volume to end-to-end; and 5) FOUR has an "8-figure" budget for its recently launched marketing campaign designed to capture mindshare following competitor pricing actions.

10 August 2023

## Equity

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## Stock Data

Price	63.37 USD
Price Objective	78.00 USD
Date Established	28-Feb-2023
Investment Opinion	C-1-9
52-Week Range	36.33 USD - 76.40 USD
Mrkt Val (mn) / Shares Out (mn)	5,311 USD / 83.8
Average Daily Value (mn)	64.89 USD
BofA Ticker / Exchange	FOUR / NYS
Bloomberg / Reuters	FOUR US / FOUR.N
ROE (2023E)	112.7%
Net Dbt to Eqty (Dec-2022A)	204.4%
ESGMeter™	Medium

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Timestamp: 10 August 2023 12:01AM EDT

## Price objective basis & risk

### Shift4 Payments, Inc (FOUR)

We calculate our price objective of \$78 based on a blend of 26x our 2023 adj. EPS estimate and our DCF model. We apply a 20% discount to FOUR's comp group given its exposure to more discretionary verticals. Our DCF model assumes a WACC of 15% 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, 4) Searchlight overhang.

## Analyst Certification

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### Shift4 (FOUR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Technology Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	212	53.13%	Buy	103	48.58%
Hold	89	22.31%	Hold	45	50.56%
Sell	98	24.56%	Sell	30	30.61%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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