

Fiserv Inc

A few wrinkles in 4Q print; reiterate Buy

Reiterate Rating: BUY | PO: 164.00 USD | Price: 138.32 USD

Pullback creates buying opportunity amid some noise

We think the pullback in shares today is overdone. Overall underlying 4Q results (ie, ex. Argentina peso effects) were ahead of expectations, though the Fintech segment (FI's smallest) missed. On an adjusted basis, revs growth guide for '24 of 6-8% was unchanged, while the organic guide was raised 4% due to latest Argentina peso devaluation. We reiterate our Buy rating on attractive risk/reward as FI trades at a ~20% discount to the S&P500 despite faster underlying organic growth.

Underlying '24 guide basically unchanged vs. Investor Day

'24 adjusted rev growth guide of 6%-8% was unchanged (assumes modest GDP slowdown), though organic rev growth of 15%-17% was ticked up from 11%-13% prior on greater FX impact of 8.5% (vs. 4.5% prior). FI raised Merchant organic rev growth to 25%-28%, solely due to 14% transitory tailwinds from Arg inflation (raised from 6% tailwind prior due to further Arg peso devaluation). Financial Solutions segment organic rev growth of 5%-7% was unchanged. FI guided to '24 adj. EPS of \$8.55-\$8.70 (14%-16% growth, narrowed vs. 13%-17% prior). Adj. EBIT margin expansion of +100bps and FCF of ~\$4.5B outlook was unchanged, though FI expects some lumpiness in '24 cash flow due to green tax credit program. '24 adj. effective tax rate is expected to be 20%.

Strong Acceptance partially offset by Fintech in 4Q

Merchant organic revs was 24%, vs. BofAe/Street=18%/17%. Payments grew 4% (vs. BofAe/Street=4%/4.6%) and Fintech was -1% (vs. BofAe/Street=6.5%/6%). In Fintech, several clients chose an ASP model instead of an upfront license, which lowered in-quarter revs (revs will now be more recurring over duration of contract). Adj. EPS of \$2.19 was above BofAe/Street at \$2.14/\$2.16, with a \$0.12 lift from adding back bal sheet revaluation impact of significant Arg Peso devaluation specifically on 12/12/23. Adjusted EBIT margin increased ~110bps to 40.7%, 130bps ahead of ests. Raise PO \$2 to \$164 (unchanged 19x on updated '24 ests) + roll out '26 rev/EPS of \$23.5B/\$11.64.

Clover/Acceptance metrics and January trends

Clover metrics were quite strong, with 4Q vols/revs up 17%/30% vs. 15%/26% in 3Q, with higher VAS penetration (19% in 4Q vs. 17% in 3Q), channel mix, and some pricing driving spread. Acceptance vols were up 5% y/y ex. wholesale (vs. 6% in 3Q, consistent w/ V/MA). Jan vols slowed vs. Dec due to weather, but have improved in recent weeks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.50	7.54	8.64	9.96	11.64
GAAP EPS	3.91	5.00	6.15	7.55	9.17
EPS Change (YoY)	16.5%	16.0%	14.6%	15.3%	16.9%
Consensus EPS (Bloomberg)			8.57	9.97	11.63
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	21.3x	18.3x	16.0x	13.9x	11.9x
GAAP P/E	35.4x	27.7x	22.5x	18.3x	15.1x
EV / EBITDA*	14.1x	13.0x	11.8x	10.9x	10.0x
Free Cash Flow Yield*	3.8%	4.5%	5.3%	5.9%	6.8%

* For full definitions of *IQmethod™* measures, see page 4.

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12655996

Timestamp: 06 February 2024 11:12AM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	162.00	164.00

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Stock Data

Price	138.32 USD
Price Objective	164.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-9
52-Week Range	103.99 USD -145.87 USD
Mrkt Val / Shares Out (mn)	83,018 USD / 600.2
Free Float	99.4%
Average Daily Value	338.88 USD
BofA Ticker / Exchange	FI / NAS
Bloomberg / Reuters	FI US / FI.N
ROE (2024E)	16.1%
ESGMeter™	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".

ASP: application service provider

Arg: Argentina

iQprofileSM Fiserv Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.0%	7.0%	8.1%	8.9%	9.8%
Return on Equity	13.2%	14.9%	16.1%	17.2%	18.8%
Operating Margin	15.7%	22.0%	23.8%	26.7%	27.6%
Free Cash Flow	3,139	3,774	4,375	4,918	5,650

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.1x	1.2x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.4x	0.5x	0.5x	0.5x
Tax Rate	18.9%	19.3%	20.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	64.7%	71.5%	65.1%	61.8%	58.8%
Interest Cover	4.9x	5.1x	5.2x	6.2x	7.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,773	18,041	20,077	21,631	23,315
% Change	9.0%	7.6%	11.3%	7.7%	7.8%
Gross Profit	11,002	12,709	14,286	15,243	16,425
% Change	18.2%	15.5%	12.4%	6.7%	7.8%
EBITDA	7,696	8,352	9,200	10,003	10,921
% Change	7.0%	8.5%	10.2%	8.7%	9.2%
Net Interest & Other Income	(680)	(1,116)	(1,290)	(1,200)	(1,120)
Net Income (Adjusted)	4,211	4,644	5,083	5,707	6,509
% Change	12.4%	10.3%	9.5%	12.3%	14.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,582	3,129	3,685	4,399	5,198
Depreciation & Amortization	3,169	3,121	3,060	3,159	3,302
Change in Working Capital	(744)	(912)	(1,311)	(1,511)	(1,619)
Deferred Taxation Charge	(558)	(511)	0	0	0
Other Adjustments, Net	169	335	426	450	486
Capital Expenditure	(1,479)	(1,388)	(1,485)	(1,580)	(1,717)
Free Cash Flow	3,139	3,774	4,375	4,918	5,650
% Change	9.2%	20.2%	15.9%	12.4%	14.9%
Share / Issue Repurchase	(2,528)	(4,726)	(3,305)	(1,837)	(2,810)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	136	1,058	(684)	(2,600)	(2,400)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	902	1,204	1,302	1,496	1,648
Trade Receivables	3,585	3,582	4,015	4,916	5,687
Other Current Assets	23,057	30,025	30,470	30,769	31,114
Property, Plant & Equipment	1,958	2,161	2,872	2,872	2,872
Other Non-Current Assets	54,367	53,918	53,162	53,162	53,162
Total Assets	83,869	90,890	91,821	93,215	94,482
Short-Term Debt	468	755	755	755	755
Other Current Liabilities	25,990	32,797	32,364	32,054	31,550
Long-Term Debt	20,950	22,363	21,679	21,679	21,679
Other Non-Current Liabilities	4,773	4,306	4,564	4,842	5,166
Total Liabilities	52,181	60,221	59,362	59,329	59,150
Total Equity	31,688	30,669	32,459	33,886	35,333
Total Equity & Liabilities	83,869	90,890	91,821	93,215	94,482

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Financial Services-Consumer/Commercial

Company Description

Headquartered in Brookfield, Wisconsin, Fiserv ("FISV") is a leading global provider of financial services technology solutions. On July 29, 2019, FISV completed its transformational merger with First Data (FDC), the largest merchant acquirer in the US. In 2018, on a pro-forma basis, the NewCo had \$13.9 billion in total adjusted revenue, \$4.0 billion in adjusted operating income and \$2.8 billion of free cash flow.

Investment Rationale

The merger with FDC (closed July 29, 2019), dramatically diversifies FISV's revenue mix by vertically integrating a faster growing merchant acquiring business to complement FISV's robust product/services portfolio of core banking solutions. We believe initial synergy projections will likely prove conservative in terms of magnitude and timing, and this deal should sustainably accelerate FISV's organic revenue growth. FISV's current levels represent favorable risk/reward, in our view.

Stock Data

Average Daily Volume 2,449,987

Quarterly Earnings Estimates

	2023	2024
Q1	1.58A	1.76E
Q2	1.81A	2.07E
Q3	1.96A	2.29E
Q4	2.19A	2.52E

Price objective basis & risk

Fiserv Inc (FI)

We use 19x our '24E non-GAAP EPS to calculate our 12-month price objective of \$164. In our view, FI should trade at a modest premium to the S&P500 given its bullish medium-term targets at its recent Analyst Day.

Downside risks are 1) FI's legacy client base continues to gradually shrink, 2) large post-merger integration can be challenging, 3) data and security breaches - an ongoing industry threats, 4) heavy regulatory oversight.

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
BUY				
	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
	Discover Financial	DFS	DFS 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
	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
NEUTRAL				
	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
	Marqeta	MQ	MQ US	Cassie Chan
	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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	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

iQmethodSM 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 & 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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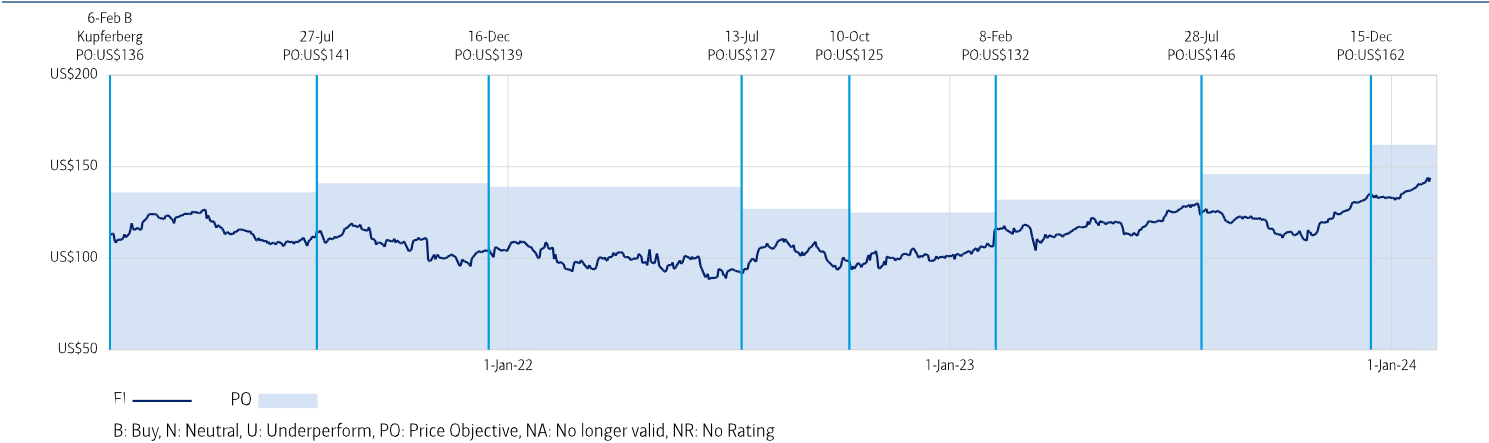
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Important Disclosures

Fiserv (FI) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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