

## Fidelity National Information Services

## Worldpay transaction closes; first step in '24 catalyst path

Maintain Rating: BUY | PO: 75.00 USD | Price: 62.26 USD

## FIS nets &gt;\$12B in cash proceeds, as expected

Earlier, FIS announced that its transaction to sell 55% of Worldpay to private-equity firm GTCR has closed, in-line with expected 1Q timing. As anticipated, FIS received >\$12B of net proceeds, which are earmarked for debt paydown as well as share buybacks (FIS reiterated plans to repurchase "at least" \$3B of stock in '24). We view today's announcement as the first step on the '24 catalyst path, which we believe will be followed by the 4Q print (on 2/26), a 2Q Analyst Day, and quarterly execution. Maintain Buy on "new" FIS' significant recurring revs, return of cash to shareholders, and attractive valuation (~12x '24 P/E). FIS is on our US1 list.

## The "new" FIS has now become reality

The close of the Worldpay transaction means the "new" FIS has become reality. With a majority stake in FIS' most controversial, challenged, and cyclical business now sold, FIS' business model is now financial services software/services-centric, and therefore should start to be comped against a different set of companies (e.g. JKHY, SSNC, and BR), which have a much higher average P/E multiple vs. current comps FI and GPN. In our view, FIS is a story which now becomes more ownable, as the model returns to its pre-Worldpay form, when shares commonly traded at a high-teens forward P/E multiple.

## Expect in-line+ 4Q w/ initial '24 revs growth guide 3-5%

Consistent with YTD trends, we believe FIS can deliver an at least in-line 4Q. Per guidance, RemainCo organic revs are expected to decelerate modestly in 4Q, due to tough non-recurring revs comps. We expect 4Q Banking revs to be roughly flat y/y (+3% recurring revs offset by decline in professional services) and Capital Markets to be up modestly (5% headwind from license revs comps, recurring rev growth of ~+7%). We expect initial '24 organic growth guidance of 2-3% in Banking (with gap narrowing between recurring and total revs growth), and Cap Markets guidance of ~5% (both excluding revenue dis-synergies, previously sized by FIS at ~\$100M, or roughly 1%).

Estimates (Dec) (US\$)	2021	2022A	2023E	2024E	2025E
EPS	NA	3.78	3.41	5.00	5.52
EPS Change (YoY)	NA	NA	-9.8%	46.6%	10.4%
Consensus EPS (Bloomberg)			4.84	4.68	5.22
DPS	NA	1.93	2.08	1.48	1.63
Valuation (Dec)					
P/E	NA	16.5x	18.3x	12.5x	11.3x
Dividend Yield	NA	3.1%	3.3%	2.4%	2.6%
EV / EBITDA*	NA	17.6x	14.2x	13.6x	13.0x
Free Cash Flow Yield*	NA	4.8%	6.3%	4.3%	4.4%

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

01 February 2024

## Equity

## Jason Kupferberg

Research Analyst  
BofAS  
+1 646 855 1961  
[jason.kupferberg@bofa.com](mailto:jason.kupferberg@bofa.com)

## Cassie Chan

Research Analyst  
BofAS  
+1 646 855 1829  
[cassie.chan@bofa.com](mailto:cassie.chan@bofa.com)

## Melissa Chen

Research Analyst  
BofAS  
+1 646 855 2589  
[melissa.chen3@bofa.com](mailto:melissa.chen3@bofa.com)

## Mihir Bhatia

Research Analyst  
BofAS  
+1 415 436 3553  
[mihir.bhatia@bofa.com](mailto:mihir.bhatia@bofa.com)

## Tyler DuPont

Research Analyst  
BofAS  
+1 646 855 2944  
[tyler.dupont@bofa.com](mailto:tyler.dupont@bofa.com)

## Stock Data

Price	62.26 USD
Price Objective	75.00 USD
Date Established	9-Jan-2024
Investment Opinion	B-1-7
52-Week Range	46.91 USD - 79.32 USD
Mrkt Val (mn) / Shares Out (mn)	36,888 USD / 592.5
Free Float	99.3%
Average Daily Value (mn)	304.46 USD
BofA Ticker / Exchange	FIS / NYS
Bloomberg / Reuters	FIS US / FIS.N
ROE (2023E)	8.7%
Net Dbt to Eqty (Dec-2022A)	57.9%
ESGMeter™	High

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Timestamp: 01 February 2024 08:09AM EST

# iQprofile<sup>SM</sup> Fidelity National Information Services

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

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Return on Capital Employed	NA	NA	2.8%	5.4%	8.8%
Return on Equity	NA	16.7%	8.7%	18.9%	30.2%
Operating Margin	NA	12.5%	18.3%	19.2%	20.2%
Free Cash Flow	NA	1,775	2,311	1,568	1,640

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

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Cash Realization Ratio	NA	1.3x	1.7x	0.8x	0.8x
Asset Replacement Ratio	NA	0.4x	0.4x	0.7x	0.7x
Tax Rate	NA	34.7%	31.2%	18.5%	19.0%
Net Debt-to-Equity Ratio	NA	57.9%	73.9%	47.1%	68.1%
Interest Cover	NA	4.3x	2.8x	7.7x	7.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Sales	NA	9,719	9,833	10,198	10,560
% Change	NA	NA	1.2%	3.7%	3.5%
Gross Profit	NA	3,503	3,799	4,166	4,404
% Change	NA	NA	8.4%	9.7%	5.7%
EBITDA	NA	3,182	3,945	4,116	4,288
% Change	NA	NA	24.0%	4.3%	4.2%
Net Interest & Other Income	NA	(277)	(703)	(253)	(295)
<b>Net Income (Adjusted)</b>	<b>NA</b>	<b>2,294</b>	<b>2,017</b>	<b>2,763</b>	<b>2,859</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>-12.1%</b>	<b>37.0%</b>	<b>3.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	NA	766	(6,594)	1,388	1,489
Depreciation & Amortization	NA	3,373	2,459	1,096	1,109
Change in Working Capital	NA	(760)	967	32	(177)
Deferred Taxation Charge	NA	(692)	(625)	(561)	(359)
Other Adjustments, Net	NA	399	7,137	357	317
Capital Expenditure	NA	(1,310)	(1,033)	(744)	(739)
<b>Free Cash Flow</b>	<b>NA</b>	<b>1,775</b>	<b>2,311</b>	<b>1,568</b>	<b>1,640</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>30.2%</b>	<b>-32.2%</b>	<b>4.6%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	NA	(1,166)	(1,230)	(818)	(843)
Change in Debt	NA	634	(909)	(7,500)	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Cash & Equivalents	NA	456	455	2,266	1,081
Trade Receivables	NA	11,261	10,660	2,276	2,419
Other Current Assets	NA	1,101	904	936	1,036
Property, Plant & Equipment	NA	2,764	2,915	3,456	3,456
Other Non-Current Assets	NA	47,696	38,082	20,544	19,857
<b>Total Assets</b>	<b>NA</b>	<b>63,278</b>	<b>53,016</b>	<b>29,478</b>	<b>27,849</b>
Short-Term Debt	NA	2,130	1,320	1,320	1,320
Other Current Liabilities	NA	14,094	14,491	8,974	9,100
Long-Term Debt	NA	14,206	13,241	5,741	5,741
Other Non-Current Liabilities	NA	5,442	4,867	3,263	2,904
<b>Total Liabilities</b>	<b>NA</b>	<b>35,872</b>	<b>33,920</b>	<b>19,297</b>	<b>19,064</b>
<b>Total Equity</b>	<b>NA</b>	<b>27,406</b>	<b>19,096</b>	<b>10,181</b>	<b>8,785</b>
<b>Total Equity &amp; Liabilities</b>	<b>NA</b>	<b>63,278</b>	<b>53,016</b>	<b>29,478</b>	<b>27,849</b>

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

## Company Sector

Computer Services

## Company Description

Headquartered in Jacksonville, Florida, FIS provides software, services and outsourcing of technology to a wide range of institutions in the financial services industry. FIS is a Fortune 500 company and is a member of the S&P500 Index. In 2022, FIS generated revenues of \$14.53B, adjusted EBITDA margin of 42.7%, EPS of \$6.65, and \$2.9B in free cash flow.

## Investment Rationale

FIS plans to sell 55% of its Merchant segment to private equity (transaction expected to close in 1Q24). Following the sale, FIS' business model will be financial services software/services-centric with mostly recurring revenues. Management has also cut guidance to relatively achievable levels. We believe downside in the stock is very limited from here, with substantial upside potential pending successful quarterly execution.

## Stock Data

Average Daily Volume 4,890,097

## Quarterly Earnings Estimates

	2022	2023
Q1	0.85A	0.72A
Q2	0.94A	0.77A
Q3	1.01A	0.94A
Q4	0.98A	0.99E



## Price objective basis & risk

### Fidelity National Information Services (FIS)

We apply a 13.5x multiple to our 2025 non-GAAP EPS estimate, which is roughly a 25% discount to the S&P500, given FIS' slower organic growth profile, to calculate our 12-month price objective of \$75.

Risks are: 1) intense competition among core banking providers, 2) client base consolidation, 3) delayed sales cycle among Banking clients, 4) management execution, 5) Worldpay transaction close is delayed or fails to close.

## Analyst Certification

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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
	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
<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
	Marqeta	MQ	MQ 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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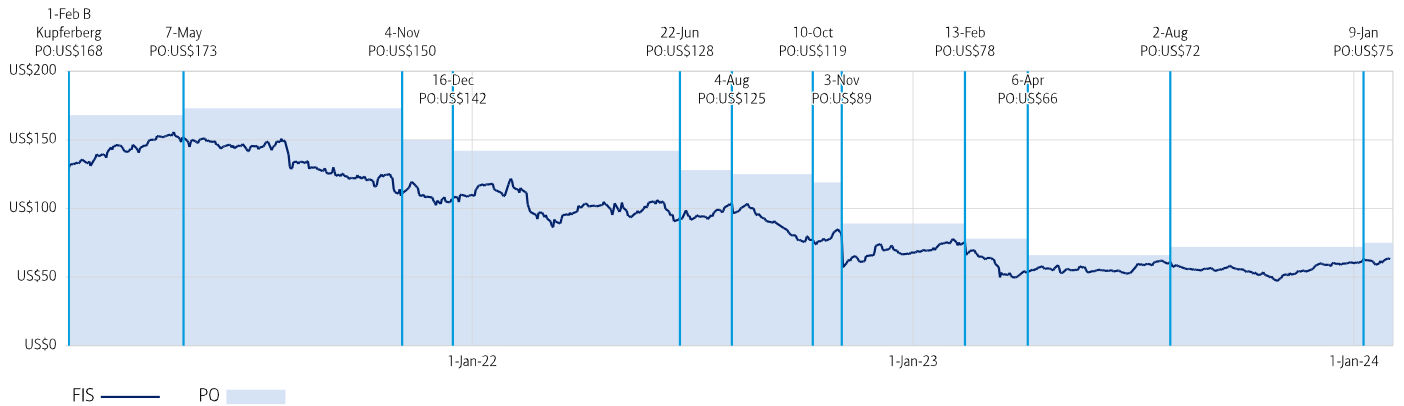
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### Fidelity Nat'l Info (FIS) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### 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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