

Fidelity National Information Services

Post-4Q earnings call thoughts

Reiterate Rating: BUY | PO: 79.00 USD | Price: 66.22 USD

4Q is a nice positive catalyst

Shares are deservedly trading higher following the 4Q call, given the credibility and transparency of the 2024 guide, we believe. Banking segment growth acceleration is being driven by improved sales momentum. In our view, the May 7th Investor Day could be the next step in the catalyst path. Some investors will understandably await evidence of execution against the guide, but positioning remains light, valuation remains quite attractive, and return of cash is robust. We reiterate our Buy rating, and FIS remains on the US1 list.

2024 guide underpinned by acceleration in both segments

2024 adj. revenue growth guide of 4.0-4.5% represents acceleration from 3% in 2023. Reduced headwinds from professional services should decrease the gap between recurring and adj. revenues in 2024, with the former growing modestly faster. Banking growth guide of 3.0-3.5% (3.3-3.8% net of M&A/dis-synergies) and Capital Markets growth guide of 6.5-7.0% (5.1-5.6% net of M&A/dis-synergies) reflect acceleration in both segments, which grew 2% and 5% in 2023, respectively. With a tax rate of 17.2%-17.5%, 2024 adj. EPS guide of \$4.66-\$4.76 includes 11 months of Worldpay (WP) minority interest, or \$0.69-\$0.71.

Robust FCF expected in 2024, driving buybacks/dividends

FCF conversion is expected to be 85-90% in 2024 and then closer to the higher end in 2025-26. Buybacks were upsized again to \$4B+ through year-end 2024 (from \$3.5B+ last quarter and includes \$510M of buybacks in 4Q23), and FIS reiterated its ~35% dividend payout ratio target (excluding minority interest). M&A spend is expected to be ~\$1B per year, concentrated in Capital Markets. FIS expects a year-end 2024 leverage ratio of ~2.8x (investment grade).

May 7th Investor Day – next potential catalyst

May 7th Investor Day topics include RemainCo strategy, playbook for sustainable growth, multi-year financial targets, and capital allocation framework. 4Q23 backlog of \$23.5B was up q/q and stable y/y, with newer operating metrics expected to be unveiled at the Investor Day. Starting in 1Q, FIS will also disclose condensed stand-alone WP financials, including revenue and EBITDA (both GAAP and adjusted).

Raise PO to \$79

We raise our price objective (PO) by \$4 to \$79, now based on 15x C25 P/E (versus 13.5x prior) due to better visibility on RemainCo earnings power and increased comp multiples. See inside for more details on 4Q and guidance.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.78	3.37	4.69	5.26	5.26
EPS Change (YoY)	NA	-10.8%	39.2%	12.2%	0%
Consensus EPS (Bloomberg)			4.74	5.34	6.30
DPS	1.93	2.08	1.48	1.63	1.79
Valuation (Dec)					
P/E	17.5x	19.6x	14.1x	12.6x	12.6x
Dividend Yield	2.9%	3.1%	2.2%	2.5%	2.7%
EV / EBITDA*	14.9x	11.9x	11.5x	11.0x	11.0x
Free Cash Flow Yield*	7.3%	8.2%	4.8%	4.3%	4.3%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 26 February 2024 12:37PM EST

26 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	75.00	79.00
2024E Rev (m)	10,198.2	10,137.6
2025E Rev (m)	10,560.1	10,480.1
2026E Rev (m)	10,560.1	10,480.1
2024E EPS	5.00	4.69
2025E EPS	5.52	5.26
2026E EPS	5.52	5.26

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Stock Data

Price	66.22 USD
Price Objective	79.00 USD
Date Established	26-Feb-2024
Investment Opinion	B-1-7
52-Week Range	46.91 USD - 65.36 USD
Mrkt Val (mn) / Shares Out (mn)	39,234 USD / 592.5
Free Float	99.3%
Average Daily Value (mn)	303.96 USD
BoFA Ticker / Exchange	FIS / NYS
Bloomberg / Reuters	FIS US / FIS.N
ROE (2024E)	17.8%
Net Dbt to Eqty (Dec-2023A)	72.7%
ESGMeter TM	High

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](#)".

iQprofileSM Fidelity National Information Services

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	2.9%	6.8%	10.6%	10.7%
Return on Equity	16.7%	8.6%	17.8%	27.0%	28.0%
Operating Margin	12.5%	15.0%	18.6%	20.2%	20.2%
Free Cash Flow	2,881	3,213	1,873	1,687	1,687

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	2.2x	1.0x	0.9x	0.9x
Asset Replacement Ratio	0.4x	0.4x	0.7x	0.7x	0.7x
Tax Rate	34.7%	20.2%	14.5%	15.4%	17.3%
Net Debt-to-Equity Ratio	57.9%	72.7%	49.2%	46.8%	46.8%
Interest Cover	4.3x	2.5x	6.7x	7.9x	7.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,719	9,820	10,138	10,480	10,853
% Change	NA	1.0%	3.2%	3.4%	3.6%
Gross Profit	3,503	3,675	4,284	4,522	4,522
% Change	NA	4.9%	16.6%	5.5%	0%
EBITDA	3,182	3,971	4,126	4,296	4,296
% Change	NA	24.8%	3.9%	4.1%	0%
Net Interest & Other Income	(277)	(804)	(345)	(320)	(320)
Net Income (Adjusted)	2,294	1,998	2,608	2,779	2,921
% Change	NA	-12.9%	30.5%	6.6%	5.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(16,708)	(6,647)	1,258	1,454	1,454
Depreciation & Amortization	3,846	2,675	1,078	1,100	1,100
Change in Working Capital	(225)	(134)	(93)	(508)	(468)
Deferred Taxation Charge	(544)	(705)	(405)	(359)	(384)
Other Adjustments, Net	17,902	9,146	775	734	734
Capital Expenditure	(1,390)	(1,122)	(740)	(734)	(760)
Free Cash Flow	2,881	3,213	1,873	1,687	1,687
% Change	NA	11.5%	-41.7%	-9.9%	0%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,138)	(1,231)	(823)	(860)	(924)
Change in Debt	902	(1,397)	(7,500)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	456	440	1,835	1,939	1,512
Trade Receivables	11,261	12,128	2,237	2,417	2,731
Other Current Assets	1,101	1,220	913	1,014	1,014
Property, Plant & Equipment	2,764	2,810	3,347	3,347	3,347
Other Non-Current Assets	47,696	38,507	20,688	20,007	20,007
Total Assets	63,278	55,105	29,020	28,725	28,725
Short-Term Debt	2,130	1,348	1,348	1,348	1,348
Other Current Liabilities	14,094	16,970	8,843	8,629	8,629
Long-Term Debt	14,206	12,970	5,470	5,470	5,470
Other Non-Current Liabilities	5,442	4,718	3,220	2,861	2,861
Total Liabilities	35,872	36,006	18,881	18,308	18,308
Total Equity	27,406	19,099	10,139	10,418	10,418
Total Equity & Liabilities	63,278	55,105	29,020	28,725	28,725

* For full definitions of iQmethodSM measures, see page 6.

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.

Investment Rationale

Following the sale of 55% of Worldpay to private equity, FIS' business model will be financial services software/services-centric with mostly recurring revenues. '24 guidance seems credible. We believe downside in the stock is very limited from here, with substantial upside potential pending successful quarterly execution.

Stock Data

Average Daily Volume 4,590,081

Quarterly Earnings Estimates

	2023	2024
Q1	0.72A	0.96E
Q2	0.77A	1.14E
Q3	0.94A	1.26E
Q4	0.94A	1.33E

More on 4Q + guidance

4Q

- FIS' 4Q adj. net revenues was \$2,510M versus BofAe/Street at \$2,523M/\$2,525M.
- 4Q adj. EBITDA was \$1,057M versus BofAe/Street at \$1,205M/\$1,045M.
- 4Q adj. EPS was \$0.94 versus BofAe/Street at \$0.99/\$0.98.

2024 guidance

- F24 adj. revenue is expected to be \$10,100M-\$10,150M (versus BofAe/Street at 10,204M/10,133M) and includes FX headwind of ~\$20M and Corporate & Other Revenue of ~\$245M.
- F24 adj. revenue growth is expected to be 4.0%-4.5% (3.8%-4.3% net of ~(50)bps of dis-synergies and ~70 bps of M&A).
- Banking Solutions growth guide of 3.0%-3.5% (3.3%-3.8% net of M&A/dis-synergies) versus 2% in 2023.
- Capital Markets Solutions growth guide of 6.5%-7.0% (5.1%-5.6% net of M&A/dis-synergies) versus 5% in 2023.
- F24 adj. EBITDA is expected to be \$4,100M-\$4,140M (adj. EBITDA margins of 40.6%-40.8% and includes Future Forward of \$280M y/y and transaction dis-synergies of \$250M). FIS projects adj. EBITDA margin expansion of 20-40bps this year, right in line with our model.
- F24 adj. EPS is expected to be \$4.66-\$4.76 (+38%-41% y/y). Other assumptions include D&A of ~\$1,075M, effective tax rate of 17.2%-17.5%, 11 months of equity method investment earnings contribution of \$0.69-\$0.71, and interest expense of \$345M-\$350M, and shares outstanding of ~556M.
- Pro forma for full year, EPS guide is \$4.72-\$4.82 with \$0.75-\$0.81 from minority interest. Including high single digit headwind from dis-synergies, normalized EPS growth guide is 5-7%.

1Q guidance

- 1Q24 adj. revenues is expected to be \$2,430M - \$2,455M (2.5%-3.5% y/y growth).
- 1Q24 Banking Solutions growth guide of 1.0%-2.0%.
- 1Q24 Capital Markets Solutions growth guide of 6.0%-7.0%.
- 1Q24 adj. EBITDA is expected to be of \$955M - \$970M (39.3%-39.5% adj. EBITDA margin).
- 1Q24 adj. EPS is expected to be of \$0.94 - \$0.97 (+31%-35% y/y growth).
- 1Q24 effective tax rate of 17.2%-17.5%.
- Other 1Q guidance items include ~\$265M D&A, 2 months of equity method investment earnings contribution \$0.09-\$0.10, ~\$95M interest expense, and ~580M weighted-average shares outstanding.





Price objective basis & risk

Fidelity National Information Services (FIS)

We apply a 15x 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 \$79.

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

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
	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
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
	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
UNDERPERFORM				
	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

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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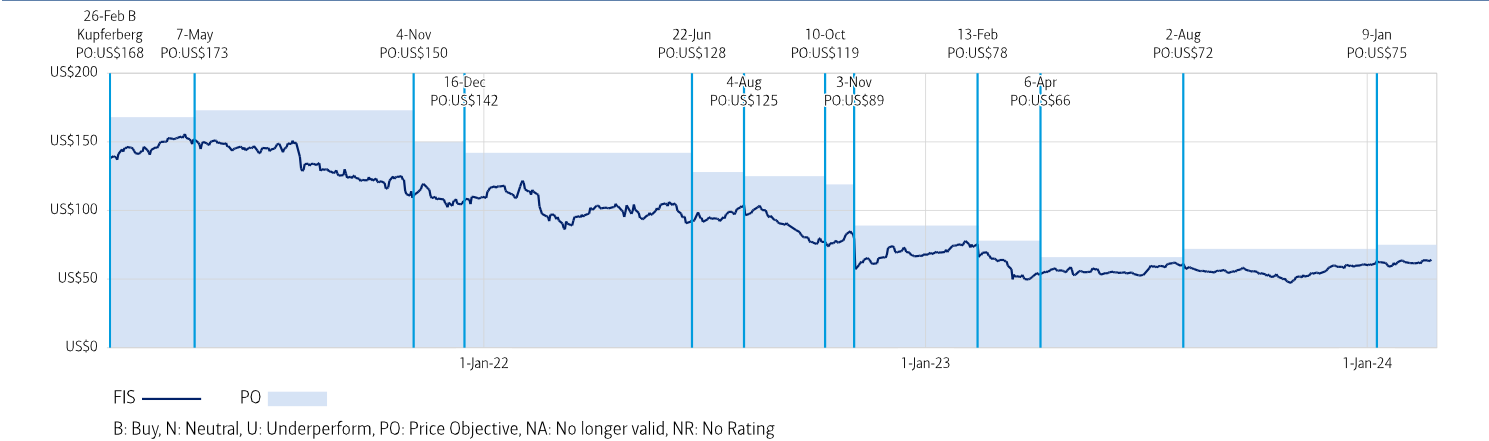
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Fidelity Nat'l Info (FIS) Price Chart



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

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