

Shift4 Payments, Inc

4Q print nets out positively; maintain Buy

Maintain Rating: BUY | PO: 85.00 USD | Price: 75.48 USD

Solid '24 guidance offsets mixed 4Q results

Shares are trading higher following robust '24 outlook (mid-point of key metrics above estimates) and positive commentary on marquee wins in several verticals. However, 4Q featured a miss on net revenues (vs. guidance) due to implementation delays from enterprise deals and timing nuances with gateway migrations. Closely watched take rate is expected to bottom out at 60bps in '24 (vs. 65bps in '23) as FOUR continues to sign on larger enterprises, offset partially by higher-yielding international, ticketing, SMB growth. Maintain Buy on FOUR's execution and significant growth opportunities (gateway volume conversion, new verticals, int'l expansion).

Initial '24 guidance in-line with estimates

FOUR guided to '24 E2E payment volumes of \$167B-\$183B, vs. BofAe/Street at \$172.8B/\$172.7B and in line with the \$175B volume bridge presented in 3Q. '24 net revenues of \$1,300M-\$1,350M (in line with BofAe/Street) are expected to be 2H-weighted, following typical seasonality. The low-end of FOUR's '24 guide contemplates modest headwinds to consumer spending while the high-end assumes recent growth and consumer spending trends persist. '24 adj. EBITDA guidance of \$635M-\$675M implies modest margin expansion of ~50bps at the midpoint (including headwinds from recent acquisitions), above BofAe/Street ~30bps/(20bps). FOUR guided to FCF conversion of 58%+ for F24 (vs. 57%+ in '23).

4Q net revs miss due to implementation delays/timing

4Q net revs of \$269M (35% y/y) was below BofAe/Street/guide at \$282M/\$280M/\$274M-\$289M. Management attributed roughly half of the miss to large customers electing to delay their go-live dates (e.g. VAI Hotel delayed its opening to 2Q24) and the other half to timing nuances with a few enterprise gateway migrations. 4Q take rate was 63.9 bps (down 6 bps q/q) vs. BofAe/Street at 65.5bps/65.8bps. Adj. EBITDA margins of 50.5% were above BofAe/Street at 48.5%/ 49.0%. 4Q adjusted FCF of \$75.5M resulted in ~55% conversion, bringing FY23 conversion to 59.5% (above 57%+ guide).

Skytab, international, new verticals gaining momentum

FOUR's '24 priorities include installing over 30,000 new SkyTab systems domestically and an additional 10,000 units in Europe and Canada. In 4Q, SkyTab went live in the UK and Canada. 4Q wins in the Sports & Entertainment vertical include NY Yankees, MetLife (NY Giants & Jets), LA Dodgers, and LA Rams.

See p.2 for more details on 4Q and guidance.

27 February 2024

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Stock Data

Price	75.48 USD
Price Objective	85.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-9
52-Week Range	42.91 USD - 79.20 USD
Mrkt Val (mn) / Shares Out (mn)	6,326 USD / 83.8
Free Float	97.8%
Average Daily Value (mn)	66.25 USD
BofA Ticker / Exchange	FOUR / NYS
Bloomberg / Reuters	FOUR US / FOUR.N
ROE (2023E)	114.7%
Net Dbt to Eqty (Dec-2022A)	204.4%
ESGMeter™	Medium

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Timestamp: 27 February 2024 02:59PM EST

More on 4Q/guidance

Details on 4Q

- 4Q E2E volumes were \$32.1B (55% y/y growth), vs. BofAe/Street/guide at \$32.7B/\$32.3B/\$32B-\$33B (58%/56%/52%-57% y/y growth).
- 4Q gross revs grew 31% y/y to \$705M, vs. BofAe/Street/guide at \$753M/\$756M/\$741M-\$766M.
- 4Q net revs grew 35% y/y to \$269M, vs. BofAe/Street/guide at \$282M/\$280M/\$274M-\$289M.
- 4Q take rate of 63.9bps (down ~6bps q/q) was below BofAe/Street at 65.5bps/65.8bps.
- 4Q adj. EBITDA of \$136M was slightly below with BofAe/Street at \$137M and in-line with guide of \$132M-\$140M.
- 4Q adj. EBITDA margins of 50.5% were above BofAe/Street at 48.5%/49.0%.
- 4Q adjusted FCF of \$75.3M resulted in 4Q conversion of ~55%.

F24 guidance

- FOUR guided to E2E payment volumes of \$167B-\$183B, vs. BofAe/Street at \$172.8B/\$172.7B.
- F24 gross revenues less network fees (net revenues) are expected to be \$1,300M-\$1,350M vs. BofAe/Street at \$1,317M/\$1,333M.
- F24 Adj. EBITDA guidance was \$635M-\$675M (47.0%-51.9% margins) vs. BofAe/Street at \$649M (49.2%/48.7% margins).
- FOUR guided to FCF conversion of 58%+ for F24 (vs. 57%+ in '23).

Price objective basis & risk

Shift4 Payments, Inc (FOUR)

We calculate our price objective of \$85 based on a blend of 20x our 2024 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 14% 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.

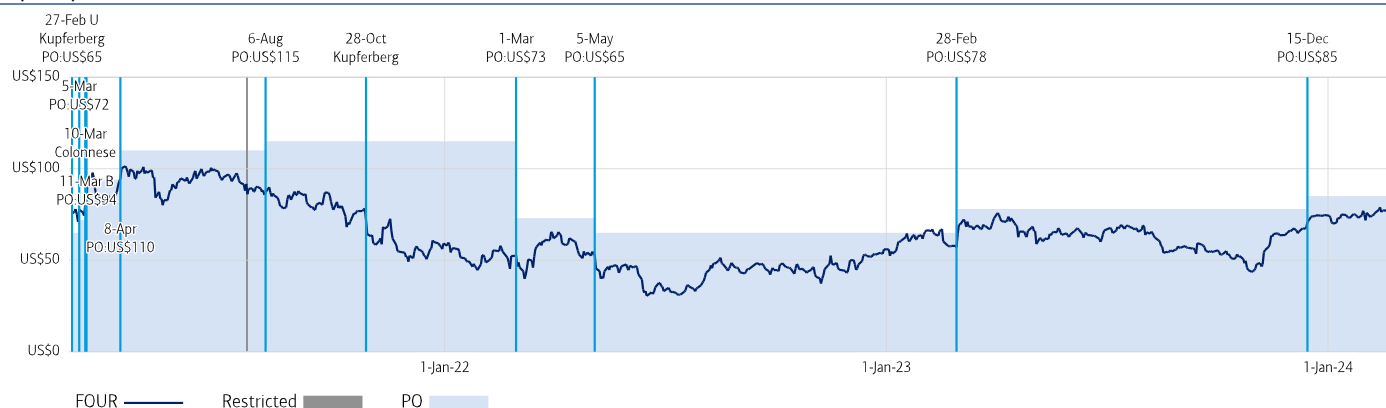
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Important Disclosures

Shift4 (FOUR) Price Chart



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

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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)

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Underperform	N/A	≥ 20%

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