Fiserv Inc. (FISV) Q1 2023 Results Conference Call April 25, 2023 8:00 AM ET

**Company Participants**

Julie Chariell - Senior Vice President, Investor Relations

Bob Hau - Chief Financial Officer

Frank Bisignano - Chairman, President & Chief Executive Officer

**Conference Call Participants**

Tien-Tsin Huang - JPMorgan

Ramsey El-Assal - Barclays

Lisa Ellis - MoffettNathanson

Timothy Chiodo - Credit Suisse

Dave Togut - Evercore ISI

Dave Koning - Baird

**Operator**

Welcome to the Fiserv 2023 First Quarter Earnings Conference Call. [Operator Instructions]. As a reminder, today's call is being recorded. At this time, I will turn the call over to Julie Chariell, Senior Vice President of Investor Relations at Fiserv.

**Julie Chariell**

Thank you, and good morning. With me on the call today are Frank Bisignano, our Chairman, President, and Chief Executive Officer; and Bob Hau, our Chief Financial Officer. Our earnings release and supplemental materials for the quarter are available on the Investor Relations section of fiserv.com. Please refer to these materials for an explanation of the non-GAAP financial measures discussed on this call, along with the reconciliation of those measures to the nearest applicable GAAP measures. Unless otherwise stated, performance references are year-over-year comparisons.

Our remarks today will include forward-looking statements about, among other matters, expected operating and financial results and strategic initiatives. Forward-looking statements may differ materially from actual results and are subject to a number of risks and uncertainties. You should refer to our earnings release for a discussion of these risk factors.

And now over to Frank.

**Frank Bisignano**

Thank you, Julie, and thank you all for joining us today. Fiserv is off to a strong start in 2023 with first quarter adjusted revenue growth of 10% and adjusted earnings per share of $1.58, up 13%. Adjusted operating margin of 33.6% was up 160 basis points. Organic revenue growth was 13%, above our 7% to 9% outlook for the full year, demonstrating our ability to sustain accelerated growth. Importantly, the growth was multidimensional.

It included elevated contributions from card processing, noncard payments, and digital banking solutions. Growth was also strong in all three of our international regions and in merchant acceptance. Investment on behalf of our clients and with our partners is paying off. We believe that accelerating our investment over the last three years, both organic and via M&A, has extended our leadership position among fintech’s. This counters the narrative over the last few years that many start-ups in the payments and fintech space would disrupt and potentially replace the legacy companies.

Our results show to our strategy to innovate and disrupt on behalf of, not in place of our long-standing bank and merchant customers was on the mark. These competitors have indeed raised the bar for the tech and fintech, but we've met and, in some cases, exceeded that bar with our own investment and innovation.

The power of our business model is in the virtuous cycle of generating revenue growth across a scaled business, leading to greater operating margins. That profit produces significant cash to reinvest in the business for faster organic growth and value-accretive acquisitions while the remainder is returned to shareholders through share repurchase. The market has shown that legacy companies across many industries with scale and willingness to innovate will offer sustainable value to clients and shareholders.

Let's talk for a moment about how the benefits of our breadth, scale, and investment have driven innovation. For small- and medium-sized businesses, we developed a cloud-based SaaS operating system for their payment needs with Clover. Now we're allowing these businesses to easily accept multiple payment types and we are seamlessly integrating software services to address their broader business needs.

For large enterprise businesses, we developed an integrated omnichannel system called Carat to manage payment needs across in-store and online sales channels, and we're adding SaaS-based solutions that improve our client’s efficiency and enhance their customers' experiences.

For debit and credit issues we've already built the most comprehensive suite of solutions, and we continue to innovate. CardHub was built off of the tools acquired with Ondot and now offers a comprehensive set of modern digital cardholder experiences. More than 1,000 financial institutions are now using CardHub, which can be fully integrated into their mobile banking app, allowing these issuers to offer their customers a unified digital card experience that only a few of the largest financial institutions can provide today.

SpendTrack does for a bank's small- and medium-sized business clients what CardHub does for its retail customers. This differentiated mobile-first platform covers card management and AI-enabled expense management with workflows specific to their business needs. Built from our SpendLabs acquisition, SpendTrack has helped us win more credit, debit, and network business with banks and issuers that cater to SMBs.

For small- and medium-sized banks, we provide a full suite of the digital banking tools that help them compete with the largest banks from mobile apps to spend management to Zelle B2B payments.

And in July, with the launch of FedNow will help them participate in the new wave of real-time payments, optimized on our NOW network that connects banks to each other, to all payment rails, and to essential applications.

For banks of all sizes, we've built a path to the cloud through both our industry-leading DNA core platform, and now has been that, our native cloud solution acquired last year.

And in support of our biggest investment of all, the combination of First Data and Fiserv, we are finding new opportunities across our client base that are aligned in ways that only Fiserv can enable. Here are just three examples of the power of our combined franchise. First, Star and Accel, the third largest debit network in the country helps card issuers and merchants realize attractive economics on debit transaction routing and satisfy new Reg II requirements for at least two unaffiliated networks on each card to route card not present transactions.

Second, our Fintech Cloud-Native Banking Core is laying the groundwork as an operating system at scale for financial institutions and merchants looking to offer embedded finance. Third, our Output Solutions business offers a full range of capabilities beyond what either a predecessor company had. For example, we are now able to offer communications and card manufacturing solutions to our entire client base from retail private label issuers to general purpose credit issuers, health care providers, banks, and governments.

As we look to the remainder of 2023, we start with a firm foundation of above-plan revenue and earnings. Still, we think it is wise to balance this strong start with the potential for macroeconomic headwinds in the second half of the year. So, we are lifting the lower end of our prior 2023 guidance for both organic revenue growth and adjusted EPS and maintaining the upper end at this point. We now anticipate organic revenue growth of 8% to 9% and adjusted earnings per share of $7.30 to $7.40.

First, discuss the trends we are seeing in each of our segments now and for the rest of the year. Merchant acceptance continues to be a very strong grower, posting 18% organic revenue growth in the first quarter, including significant strength in Latin America and Asia and continued gains in North America. This growth reflects overall consumer spending resilience but is also a testament to our strong distribution channels, ability to develop new products and services that resonate, success in selling more solutions to our existing merchants, and the power of diversification across verticals, merchant size, and geography.

It's not yet clear whether broader macro headwinds are beginning to impact consumer spending, but we did see payment volume growth slow a bit late in the quarter. We continue to see good demand in the grocery vertical as well as in restaurants, especially QSRs. We've started to see consumers rotate towards nondiscretionary spending and reduced basket size. The decline in inflation is impacting volume growth, particularly in the metro vertical. This did not impact Fiserv revenue, which were large metro providers and other enterprise clients is based on transactions, not dollar volume.

Our important advantages in this environment are our breadth of distribution business is both large and small and a good mix of nondiscretionary spending, about half of our volume. Still, we are mindful that higher interest rates may weigh on consumers. And thus, we anticipate second quarter revenue growth in this segment to ease from the very strong first quarter levels.

This, of course, is contemplated in our guidance. Clover revenue growth remains strong, up 22% in the quarter. We continue to add merchants at a healthy pace and extended value-added services penetration another point to 17%. Now one year since our Merchant Investor Day, we are on track to achieve the targets we set for 2025, $10 billion in merchant acceptance revenue, $3.5 billion in Clover revenue, and Clover value-added services penetration of 25%.

Move forward, a consistent average rate of growth over this time period was not in our calculus. Instead, the growth rate should accelerate over the next three years as we add more products increased software penetration, and reach new markets.

In the first quarter, for instance, we integrated Bill Pay and enhanced brand management into Clover, and improved access to Clover Capital via our client dashboard. In the past 12 months, we introduced upgraded Clover Mini and Clover Flex hardware. Later this year, we'll add a low-cost smart POS point pad to address the needs of smaller merchants who want simpler access to the Clover operating system and software.

During the quarter, Fiserv launched support for Apple Tap to Pay on iPhone for SMBs on the Clover platform and for U.S. enterprise clients. This will enable businesses from large enterprises through medium and small businesses down to micro merchants, to securely accept contactless payments on iPhones without the need for additional hardware like an external card reader. As contactless payment usage rises we are excited to enable new and existing clients to use this seamless and secure solution on iPhone to help run and grow their businesses.

On our Carat platform, we continue to expand our capabilities in broad omnichannel solutions for enterprise merchants. We renewed and expanded our contract scope with several large merchants this quarter, including Fanatics and a major hotel chain. We also recently signed a pay-by-backed agreement with Walmart that includes traditional ACH processing and incorporates Fiserv's NOW network and real-time payments capabilities.

Our Payments and Network segment also had a very strong quarter, posting 13% organic revenue growth that included double-digit gains in all three business lines, issuer solutions primarily representing credit card issuing and output services. Card services, including debit processing and our debit networks Star and Accel, and our digital payment services, including Zelle and our bill pay business. This strong performance drove growth that was above our medium-term guidance of 5% to 8% and includes a couple of points of growth from a few discrete factors, which Bob will cover in more detail later.

Positive trends continue and should carry full-year growth towards the high end of the range. Several years of large card issuer wins in North America will drive revenue growth in the coming years with the pipeline that includes new win opportunities as well as follow-on sales to existing clients as we extend our value proposition. Our issuer clients have been active in deploying three highly innovative products: advanced events, our new AI-based fraud solution; new card controls and alerts developed by Ondot; and point-of-sale loan solutions that help issuers compete with BNPL providers.

Recently, Citi signed on for our POS loan product and PNC went live. USA is in the process of implementing Advanced Events, while [indiscernible] has signed on as well. International Issuer Solutions was another bright spot in the quarter with wins across all cereal regions. In Latin America, a leading Argentine fintech will choose Fiserv to provide credit card processing services for its new digital-first credit card product launch.

It's already live in Mexico and will go live at Argentina and Colombia in the coming months. While it chose our first vision platform for its local presence and global cloud API way that maximizes the digital user experience with APIs for instant card issuing, dynamic verification, and installment payments among other services. We're excited about additional opportunities as we roll out the next-generation cloud-based first vision platform later this year.

And in EMEA, we signed a contract with National Bank of Kuwait, the country's largest bank, to process their debit acquiring business on our first vision platform. This follows a fourth quarter win with this client for prepaid processing.

Turning to card services, our debit network, and processing business. Growth remains strong as we continue to add new issuing business with our core and noncore bank clients and sign merchants for debit transaction routing via our networks. The adoption of Reg II has brought another large merchant, Uber, to our networks. We will provide Uber the benefit of the added choice that comes from the dual network mandate for card, not present debit routing. We see many more merchants in our debit networks pipeline ahead of the new rules set to take effect July 1.

Our digital payments activity continues to grow with Zelle implementations and transactions. We have over 1,200 financial institutions live on Zelle today. with the potential to add hundreds more to our installed base this year. Financial institutions that use us for Zelle services are connected to the Fiserv NOW network, which also provides easy access to FedNow, the Federal Reserve's real-time payment system. We have six banks in the pilot phase and over 20 financial institutions committed to go live post, FedNow launch in July. We're encouraged by the opportunity to add many more banks and credit unions, especially since we think our NOW network as a single integration layer offers the ideal way to access FedNow.

NOW is a network of networks connecting financial institutions, billers, consumers, and businesses to real-time money and data movement across all rails, including card, ACH, Zelle, FedNow, and the clearinghouse. In Asia, we are working with leading banks across the region on digital transformation initiatives. This includes Bangkok Bank, the largest bank in Thailand, that will expand its mobility digital banking platform into new domains; and BDO, the largest bank in the Philippines, where we are bringing signature core banking microservices to enhance BDO's third-party systems integration.

We're also working with the National Payments Corporation of India to enable the unified payments interface on RuPay credit cards for issuers on our India processing hub.

Turning to our FinTech segment. Organic revenue growth of 3% was slightly below our medium-term guide of 4% to 6%, which we attribute to timing and a strong first quarter last year, creating a higher comparison point. Implementations from the healthy series of wins over the past few years will provide growth in the second half of this year.

We continue to see organic growth in this segment within the guidance range. Importantly, we have not seen an extended disruption from the banking turmoil that arose in March. Thus far, there are no follow-on effects across our banking client base as we continue to monitor it with our enterprise risk framework. We see the opportunity to sell our regulatory suite to banks who may increasingly need them. And we are well positioned to be a net winner among acquirer banks should M&A activity heat up. Many larger banks already use a variety of our services, and we've demonstrated the ability to scale our modern platforms.

In April, we marked the one-year anniversary of the Fintech acquisition and have been very happy with its progress. We've seen strong interest from new and existing clients, which has contributed to meaningful growth in our Fintech pipeline. Importantly, in the first quarter Fiserv renewed the Fintech partnership with ONE, a leading banking fintech backed by Walmart. Fintech will be the system of record for a growing number of ones expanding banking services. Ramping this opportunity will represent a high-profile achievement and scale that could attract other banks and merchants to the proven FinTech solution.

Now let me pass the discussion to Bob for more detail on our financial results.

**Bob Hau**

Thank you, Frank, and good morning, everyone. If you're following along on our slides, I will cover additional detail on total company and segment performance starting with our financial metrics and trends on Slide 4. First quarter results largely outpaced both internal and external expectations. Total company organic revenue growth was 13% in the quarter with strong performance in the Payments and Network segment and continued momentum in our Merchant Acceptance segment.

Growth is tracking well ahead of initial guidance for the full year, so we are raising the lower end and now anticipate growth of 8% to 9%, which considers economist forecast for slower consumer spending and bank lending in the second half of this year. We note, however, that we are not seeing signs that these measures are slowing meaningfully at this time.

First quarter total company adjusted revenue grew 10% to $4.3 billion, and adjusted operating income grew 15% to $1.4 billion, resulting in adjusted operating margin of 33.6%, an increase of 160 basis points. First quarter adjusted earnings per share increased 13% to $1.58 compared to $1.40 in the prior year. Free cash flow came in at $861 million for the quarter, up 43%, driven by improved working capital. We remain confident in achieving our outlook of $3.8 billion in free cash flow this year.

Based on higher organic revenue growth, coupled with our focus on operational excellence, which supports our margin expansion outlook of more than 125 basis points, we are raising our full-year adjusted EPS guidance range from the previous $7.25 to $7.40 to a new range of $7.30 to $7.40, representing growth of 12% to 14% over 2022.

Now looking to our segment results starting on Slide 5. Organic revenue growth in the Merchant Acceptance segment was a strong 18% in the quarter, well ahead of our medium-term segment guidance of 9% to 12%. Adjusted revenue growth in the quarter was 12%. Merchant volume and transactions each grew 5%. Turning to our merchant operating systems, Clover and Carat. We continue to see gains across key metrics, including net new merchant adds, value-added services penetration, and partner relationships. Clover revenue grew 22%, coming off one of our toughest comparisons with last year when the post-COVID return to normal was in full swing. Payment volume growth was 17%.

Software and services penetration reached 17% of total Clover revenue, an increase of 150 basis points from a year ago and up 80 basis points sequentially with continued strength in services such as Clover Capital. Clover Connect for ISVs built on its momentum with very strong revenue growth in the quarter as we continue to execute on our vertical strategies, adding 37 ISV partners. We also delivered new client wins following product introductions last quarter for the payment facilitator or PayFac market.

Carrot also had a strong quarter with revenue growing 16%. International merchant operations represented 22% of segment revenue in the first quarter and grew 39% organically, led by Latin America. Adjusted operating income in the Acceptance segment increased 20% to $562 million and adjusted operating margin was up 210 basis points to 30.5%. The improvement reflects strong operating leverage and cost management.

Turning to Slide 6 on the Payments and Network segment. Organic revenue grew 13% in the quarter and adjusted revenue growth was 11%. Organic growth was well above the high end of the 5% to 8% guidance range. As Frank mentioned, a few discrete items contributed a couple of points of growth. These included additional revenue carryover from state government stimulus work, above-average digital bank transfers in March, and a slightly easier comparison against first quarter of last year. Even as year-over-year comparisons get tougher in the second half, we still expect 2023 growth to be at the high end of the segment's guidance range for the full year.

The remaining growth was driven by a variety of impacts across our business lines. Our North American credit active accounts on file grew 12%, driven by both new business onboarding and a favorable credit environment. Our international issuing business continues to grow above segment average driven by macroeconomic improvement as well as onboarding of new clients. Interdebit business continues to post solid growth, supported by new solutions and new client wins across processing and network.

Adjusted operating income for the segment was up 15% to $717 million and adjusted operating margin was up 130 basis points to 43.8% Operating leverage and a favorable mix shift towards debit network revenue helped drive the margin improvement, along with cost management.

Moving to Slide 7. In the Financial Technology segment, we posted 3% organic growth for the quarter, just below our 4% to 6% medium-term guidance range. We expect to achieve growth within that guidance range this year as implementation work on prior wins is completed in the second half. Meanwhile, new customer momentum continues and we had 12 core wins in the quarter. Adjusted operating income was up 2% to $280 million.

Our Adjusted operating margin in the segment was flat at 35.4% as we continue to invest in Fintech. We expect margin expansion to resume as we anniversary the Fintech acquisition in the second quarter. The adjusted corporate operating loss was $122 million, in line with the prior year. The adjusted effective tax rate in the quarter was 18.9%. We continue to expect full-year 2023 adjusted effective tax rate to be approximately 20%.

Total debt outstanding was $22.4 billion on March 31. The debt-to-adjusted EBITDA ratio increased one-tenth of a turn to 2.9 times and remains in our target range of less than 3 times leverage. During the quarter, we issued $1.8 billion of 5-year and 10-year senior notes to replace notes coming due later this year and reduce our commercial paper program balances. Burnable rate debt sits at 14% of total.

During the quarter, we significantly stepped up our share repurchases buying back nearly $1.5 billion worth of stock. After receiving Board approval to repurchase up to an additional 75 million shares, we had 78.7 million shares remaining authorized for repurchase at the end of the quarter. We are fully committed to our long-standing capital allocation strategy, which includes investing in our business organically, maintaining a strong balance sheet, returning cash to shareholders through share repurchase, and pursuing high-value and innovative acquisitions.

With that, let me turn the call back to Frank.

**Frank Bisignano**

Thanks, Bob. Before wrapping up, I want to discuss our ESG efforts. Our approach to corporate social responsibility and ESG is one of the ways our business produces better outcomes for our clients, shareholders and associates. Let me share some highlights of our soon to be published annual CSR report.

First, our ongoing dedication to the progress of our associates through professional development. In 2022, we filled 45% of exempt roles with internal Fiserv associates. Second, our continued investment in minority, women, veteran, ethnically diverse, LGBTQ+ and disability-owned businesses through our back-to-business program in the U.S. and U.K. We have awarded more than 1,600 grants to eligible merchants since the inception of the program.

Third, our commitment to continue to improve our collection and disclosure of greenhouse gas emissions and energy data. Not only have we aligned our 2022 CSR report with the task Force on Climate-related Disclosures framework, but we have also provided three years of data and a foundation for measuring the impact of our ongoing GHG and energy initiatives. These factors are reflected and being named to Forbes List of America's Best Large Employers, which is based on a poll of employee recommendations released in the first quarter.

We are equally proud of another recognition received in the first quarter as one of America's Most Innovative Companies by Fortune. I started off this discussion by highlighting the importance of investment in innovation, and this is another proof point on just how seriously we take technology innovation on behalf of customers and our future.

This time of year, is often marked by the release of ranking figures tabulated for the prior year. And my time in banking left me with an affinity for league tables that I know you also share. I'm pleased to report that Fiserv has retained its number one position in eight categories: core account processing, merchant acquiring, mobile banking, online banking, issuer processing, bill payment, person-to-person payments and account to account transfers.

And that brings me back to where we started our discussion today. The importance of scale in sustaining investment and driving innovation. I thank the 41,000 employees of Fiserv who helped get and keep us here. I know that I speak for all of them when I say we intend to maintain the privileged position we hold.

And now operator, please open the line for questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Our first question comes from Tien-Tsin Huang from JPMorgan. Please go ahead.

**Tien-Tsin Huang**

Thanks so much for taking my question. Good results here. Just wanted to maybe ask you to elaborate a little bit more on the month-to-month trends, including April, I heard some of the commentary on consumer spend and gas. But also curious around bank IT spending. I know you lifted the lower end of your outlook. It sounds like you feel confident in the timing of implementations on deals. So, if you could just maybe elaborate on that and a little bit more on the consumer side, that would be great? Thank you.

**Frank Bisignano**

Good to hear from you. Thank you. I'd say as much turmoil as we had in March, our volumes were very high. You hear us talk about what I call a backlog, meaning our books sold that's being implemented right now. We expect that a very strong lift in the second half. Demand, still very high from financial institutions. I've spent a lot of time with our client base. And the demand for digital, you heard us talk about the demand for fintech, also our clients are building bigger business and trying to gain share also. So, we feel good about the bank IT spend, and we feel good about our position with our client base right now. I hope that answers your question.

**Tien-Tsin Huang**

Glad to hear it. Just my follow-up then, if you don't mind. Just I know you called out the Uber win on the Star and Accel networks for CNP routing. We've been I think -- I've asked you a few times, Frank, on Reg II. So, you mentioned a strong pipeline. Do you see a burst in potential deals and revenue leading up to that? Or is this going to trickle into the second half of the year? Just trying to understand…

**Frank Bisignano**

I think it's second half and beyond. I think it's probably more a '24 than '23%. We should see some of it in '23, but I think you'll see more of it in '24.

**Tien-Tsin Huang**

So, it's not a one and done thing. Great. Thank you for the time.

**Operator**

Next, we'll go to the line of Ramsey El-Assal from Barclays. Please go ahead.

**Ramsey El-Assal**

Hi, thanks so much for taking my question this morning. I wanted to ask you about the spread between merchant volume and revenues, which widened a little bit this quarter. If you could just update us on the primary drivers of that spread product mix, geographic mix, pricing, other factors, and also just on the sustainability of those drivers in terms of driving revenue over the year.

**Bob Hau**

Yes, Ramsey, good morning. As you've heard us talk about, there's lots of variation quarter-to-quarter in terms of that spread that you talk about there's a combination of things like mix of small businesses versus enterprise of hardware versus processing. As you heard, we introduced some new hardware in the last few months. We've got some more coming in the balance of the year. That will drive mix of international in three regions, LatAm, EMEA and APAC, with particular strength in LatAm and in APAC right now.

More penetration of value-added services, you heard us talk about that stepping up 150 basis points to 17% in the quarter, mix of PayFac and ISVs and ISOs. So, lots of different elements, which is why we try to push on tracking our overall revenue growth. And as you've heard us say, we're focused on getting more merchants and selling more to those merchants. And we're seeing that benefit the last several quarters, and we expect that to continue as we march towards our goal of $10 billion of revenue in this segment by 2025.

**Ramsey El-Assal**

Okay. So quite a few different factors contributing there. A follow-up for me is just on the international growth and merchant. It seemed incredibly impressive. What are the kind of common threads between the different markets where -- that are helping to drive that growth? Is there anything that's going on outside the U.S. that's sparking that kind of growth?

**Frank Bisignano**

Well, I think you've watched us build out our international business for years. I mean, there was a point in time where we didn't have a business in Brazil as an example. And then we've built it out. You heard us talk about Costa. That's still ramping up. When you look across Asia Pac, you could see us winning business there. So, I think it's a tried and true as having our feet completely embedded on the ground in terms of our capability, in some cases, Clover leads.

But it's always been an investment for us in innovation running a global franchise. And I think on top of it, it's beyond the merchant. It's issue along with it, which allows the payment segment also to get the benefit of our geographic disparity. So, it's a continuation of our strategy we laid out going back to 2020. And we'll continue to invest in those markets. We like the growth in those markets. We run those regions separately, and we feel great about our leadership on the ground there, too.

**Bob Hau**

Ramsey, I think that's one of the distinctions for us, and it's been one of the keys to our success. We have local leadership. We don't have an international business. We have three regions, and those three regions are run by local leaders who are physically present in those regions and know those regions. We operate as a global business, and so products and solutions global solution, but it's brought to those regions to those local regional leaders. And of course, across all of the regions, we continue to be the full partner of choice, and bank partners are one of the key methods. Frank talked about Cash in Europe. We announced our Deutsche Bank joint venture. We've got partnerships in Asia Pac, in Singapore, and in India, et cetera. So, it's a global reach with a very local leadership.

**Ramsey El-Assal**

Great. Thanks so much.

**Operator**

Next, we'll go to the line of Lisa Ellis from MoffettNathanson. Please go ahead.

**Lisa Ellis**

Hi, good morning. Thanks for taking my questions and good stuff here. Frank, you highlighted Fiserv's ongoing readiness efforts related to the rollout of FedNow coming in a few months. Can you just elaborate a bit on how you anticipate and then I guess maybe how quickly you expect FedNow to begin impacting Fiserv's business and where we'll see that benefit? Thank you.

**Frank Bisignano**

Yes. I mean, we've always had a philosophy that we are a commerce enabler. So as new payment types and changes to payment types, just how what we did with Zelle, and you go back to places like Apple Pay. It's just a philosophical belief that we are here to help our clients grow their business. We are here on purpose-driven method to help them run their business better.

And when new initiatives like FedNow come along, and we have thousands of banks and credit unions across the country that are looking for different payment methodologies to allow them to deliver for their clients who are going to enable it. So, we partner obviously with the Fed on this. I see it as another payment type. I think it's good for our largest institutions and our smallest. And I suspect it will get volume. It's -- for us, it's a very good choice to enable payments just like Zelle was a very good choice to enable payments. So, we're pretty excited. Adoption will drive all. It will be a single integrated interface to allow our clients to be able to come in seamlessly through our network and I look forward to reporting on it when we talk next quarter.

**Lisa Ellis**

Terrific. Thank you. And then maybe just for my follow-up, I'll ask about investment areas because you did call out how Finxact, Ondot and some of your other recent acquisitions are having a very noticeable positive impact on Fiserv. So just looking forward, what are some of your priority investment areas like sort of the hot areas right now, either for organic or inorganic investment? Thank you.

**Frank Bisignano**

Well, I would say you have to start with a series of items. Carat, Clover, we're leaning heavily on both of those. I think we've grown them organically very well. But we've also added BentoBox, MerchantOne, Next Table. So, you'll see us do both. I think we have a very, very strong track record.

Starting with Clover, moving to Ondot, moving to BentoBox, Finxact of bringing founders in and helping them grow their business at a different level. I think you can see a vertical focus to see us with driving value-added services. So, I would say that's a large part of the merchant story, and that will happen in the U.S. and within our regions also.

I think when you think about Finxact, you think about what I feel is the best next-generation platform out there. And both Finxact and DNA are very, very strong assets. We do have great assets like Signature also, but when you think about the buildout, you should think about us taking Finxact and DNA to the next level, the best cloud platform in the industry between the two by far. And when you see the investment we're making to bring Walmart up, and they're up and running in the early stages, that will industrialize us in that platform beyond anyone's expectations when we acquired it.

If you look in our payment’s areas, we will continue to bring in the issuing area a lot of digital innovation. We're cloud enabling those platforms to take them to the next level. I think you've seen that we've been hugely successful in the issuing area even as late as Desjardins and Target coming on. So, we'll continue to invest in those platforms growing out and bring more value-added services there, more digital capability there also.

I think along with that, what we're doing with things like SpendLabs and -- is we're opening up a whole new SMB opportunity within our portfolio that we think will transfer sell our whole organization. And we believe deeply in SMB and the combo of SpendLabs and Clover and other assets that we brought on board will really allow us to even have more wallet from our SMB population.

And then Ondot, you saw us take something that was a card control card access capability and bringing it into the mobile banking platforms of over 1,000 institutions. So, I think you also look at the speed in which we ramp these products, the way we integrate them into the company. We think we have a pretty strong expertise in that and you can count on that continuing driving future growth for the company.

**Operator**

Next, we'll go to the line of Timothy Chiodo from Credit Suisse. Please go ahead.

**Timothy Chiodo**

Great. Thank you for taking the question. I want to dig in a little bit more on the recent Star and Accel wins. So, you mentioned numerous of those, the Uber, the large merchant acquirer last quarter and more in the pipeline. I wanted to just recap the value proposition. When you're speaking with these acquirers and merchants, I'm assuming part of it is lower interchange, network fees. There might be a bundled sales approach. There might be an authorization angle. If you could recap those and maybe add to the list?

And then lastly, if at all possible, if you could just comment directionally in terms of market share goals. Is the goal for U.S. online debit for Star and Accel to be in a similar position to your share for the in-store debit market in the U.S?

**Frank Bisignano**

So first, I think you did a pretty good job, so thank you, in describing the opportunity. And I would say, yes, we're in the client's office every day. Large institutions, and we're talking to them about our full capability. I'd say we get a lot of imbalance from large institutions because if you're the third debit network, I think it's a very strong position. And the combo of Star and Accel is very, very powerful. It's good for our merchants, it's good for our issuers. And I don't want to lose that, it's a two-sided benefit.

That benefit is us having invested in these products for a long time and consistently felt that it was a value-add to our clients, both large and small. It is about technical capability, not just about a lower price. Of course, every one of our business as the industry would call them merchants, I think of them as businesses. We always working on how to get a better client experience and how to lower the cost of acceptance. We're here to provide them the enablement they need.

When you think about market share, you hear us rattle off those number ones and then we rattle off at number three in debit. I think that's a pretty privileged position. Those are formidable and fabulous institutions, 1 and 2. So our job is to give our clients choice, and if we give them choice, we do come with an all-inclusive capable set of assets that we deliver to clients. It could be cost debit routing. It's the capabilities of Reg II. It's also the pay by bank capability that you heard about. Over time, it will potentially be things like FedNow and Zelle capability. Our job is to have the bundle, have any capability, help both issuers and merchants be able to get a better outcome.

And I think we're uniquely positioned out of everybody in the industry. It's really the power of having a merchant business and issuing business, a banking business, and we're a horizontal company that allows us to partner cross-sell businesses to give the best solution of the client. And that's why sometimes when we look at it, we look at it how did we deliver on the top in total? And how did we deliver in margin in total and making sure we're doing the best job for our clients and our shareholders.

**Timothy Chiodo**

Great. Thank you, Frank.

**Operator**

Our next question comes from Dave Togut from Evercore ISI. Please go ahead.

**David Togut**

Thank you. Good morning. Within the Fintech segment, the 12 core wins are certainly good to see. Can you talk about decision cycles, sales cycles, and how they might be evolving post the regional bank crisis from early March?

**Frank Bisignano**

Yes. I mean, first of all, I don't -- I didn't see a regional bank crisis. I saw tremendous turmoil. I think we have banks of all sizes from the largest in the world to 13-person credit unions, and there was not across -- and this is me talking to you about my interaction with my client base. In their office during this period of time, while I was on the road, whether it was Debica, Kansas, we saw at Missouri -- Springfield, Missouri, Raleigh, North Carolina, all across, we have very, very sound banks across this country that really performed very, very well and have always run their asset and liability structure in a manner that I've seen through my career.

So, a little bit -- I'm sorry for that kick off, but I wouldn't want to need it as a banking crisis. There was turmoil, I see demand very high. Every one of those were creating opportunity that I rattled off during that week. I still -- I've been consistent on demand is high, opportunity to sell all products is very high. I mean, if you step back and look at our 2 FI-facing segments, you look at it over the past three quarters, third quarter at 7.7% growth, fourth quarter '22 at 9.2% growth and first quarter of '23 at 9.4% growth. Those feel good to us. Our pipeline is strong, both in traditional products and then in our new opportunities like Finxact and Ondot and others.

So, I feel very, very good about. Yes, there was maybe, as I called it, a little coastal problem. But throughout the country, it's been very, very strong. And our banks [indiscernible] is that we were all over how to help them through it and deliver what they needed during that turmoil. And I feel good about how the org performed.

**David Togut**

Appreciate that. And just as a follow-up, perhaps, Bob, can you talk about the key drivers of operational effectiveness or operational excellence that will sustain margin expansion in your midterm range?

**Bob Hau**

Sure. And Dave, this is quite frankly, it's just old-fashioned productivity. This is really what has been at the core of our company for a lot of years. The last couple of years have been focused on integration and cost synergies. And so, this is returning back to basics with integration synergy behind us from the large merger back in middle of '19 and getting into productivity, reevaluating how we do everything and why we do what we do.

It's things like implementing our new SAP system and streamlining the process and getting more information in the hands of our business leaders more quickly so that we can make decisions faster. And it is, like I said, evaluating what we do on a day-to-day basis and streamlining that process so we can be quicker, more nimble, satisfy our clients and serve them in the way they need to be served with greater speed and efficiency.

**David Togut**

Understood. Thanks so much.

**Operator**

And for our final question, we'll go to Dave Koning from Baird. Please go ahead.

**Dave Koning**

Yes, thanks. And great job. And maybe just my two questions on merchant. First one, ex Clover, it seems like you still did mid- to upper teens revenue growth in Acceptance. So, I guess my question really is, are you taking sure -- even without Clover, it seems like you're taking a lot of share in the industry. Is that fair to say?

**Bob Hau**

Yes, Dave, I think we had yet another very strong merchant quarter across the board. Contributions, yes, Clover continues to do well. We continue to server enterprise clients and gain there. Our international business, as you heard, hitting on all cylinders. So, this is -- Clover is a big part of this segment, no doubt about it, and a big part of that growth that we laid out our intent, our goal to get to $10 billion by 2025. Clearly, Clover is part of that. But our enterprise clients are non-Clover SMB clients. Our international region is all part of that and all contributing to the growth in the first quarter and last year for that matter.

**Dave Koning**

Yes. Great. Thanks. And just as a follow-up, I think there might be a little misconception on the Street, just that volume growth being mid-single losing momentum. But when I look at it, I think over a third of your volume comes from bank JVs that generate almost no revenue. And I mean, I think those -- that all could almost go away, and you still probably would have beaten consensus this quarter. Is it fair to say is that maybe where some of the slowness is where is the very high-yielding stuff actually is growing volume quite fast?

**Bob Hau**

Yes. Overall, it's hard to be concerned in my mind with 18% top line when we did 17% for the full year last year, and to your earlier question, taking share across the board. There's lots of different elements to that volume. It did ease a bit, and certainly the bank joint ventures are part of that. We have some processing revenue -- processing volume that doesn't drive big revenue and big profitability for us. And obviously, we continue to focus on that. And as we talked about, geez, a little more than a year ago now. And we think that, that holds going forward from a revenue standpoint, but isn't a big growth driver for us.

**Dave Koning**

Yes, got you. Thanks, and great job.

**Bob Hau**

Great. Thanks, Dave.

**Frank Bisignano**

Yes, I'd like to thank everybody for their attention today. Please feel free to reach out to our IR team with any questions. Have a great day, and I look forward to talking to you. Thank you.

**Operator**

Thank you all for participating in the Fiserv first quarter earnings conference call. That concludes today's conference. Please disconnect at this time, and have a great rest of your day.