



Fiserv's Economies of Scale are a Valuable Asset

Price \$105.97

Growth Holding

September 20, 2021

- Growth of earnings in low teens, Compelling valuation.
- Strategic partnerships and acquisitions to expand services offered to clients.
- Foothold in developing economies in LATAM and APAC, including a 65% credit processing market share in India.
- Top market share for payment processors, with nearly 4 in 10 point of sale transactions being settled through Fiserv.

Investment Thesis

Fiserv (FISV) is a multinational financial technology and financial services company with clients in over 100 countries. Fiserv makes up the backbone of several payment processing and settling services; it processes 12,000 transactions a second and holds the #1 market share for payment processing for financial institutions valued at \$1-50 billion. On top of this, Fiserv has connections with nearly 100% of US households in some capacity, processing 4 out of every 10 points of sale transactions in the United States.

Fiserv can leverage its economies of scale to increase its presence in emerging markets like Asia and South America. Coupled with strategic partnerships with several major financial institutions. We believe Fiserv is positioned to leverage its market leadership and scale into profitable sustainable growth.

Products

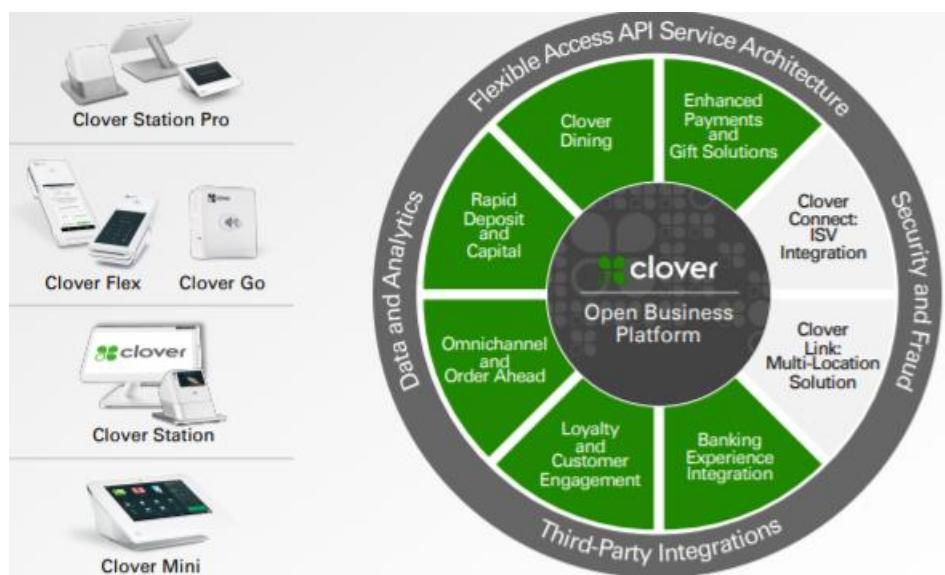
Fiserv operates 4 distinct internal segments, Merchant Solutions, Integrated Banking, Digital Payments, and Card Payments.

Merchant solutions are the point of sale systems arm of Fiserv, covering 86 billion transactions a year. Put another way, Fiserv's point of sale payment processing amounts to 14% of the US GDP and 4 out of every 10 retail transactions and serves the majority of the Fortune 50. Merchant solutions expansion strategy involves increasing the omnichannel capability of its service to integrate e-commerce with physical points of sale.



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This includes its two flagships, Carat for omnichannel commerce for large businesses and Clover for small businesses. Clover goes far beyond Fiserv's standard transaction settling model and includes several point of sale system options, inventory management, order management, and other crucial features for small business owners, all while providing a seamless customer experience.



Carat provides similar services to Clover, but for enterprise-scale clients, making up some 70% of the market share for the top grocers and corporate brands.



Fiserv Carat Customers

Integrated Banking holds a portfolio of 3,700 US financial institution clients, 95 of the top 100, reaching over 40% market share in 2020. Integrated banking offers services such as fraud detection, wire transfer settlement (of

which Fiserv processed \$3.6 trillion in 2020), digital banking services, and account statement management. In the future, Fiserv estimates there is \$2.4 billion in available opportunity through investments in Zelle, cybersecurity, ATM management, and other commercial banking solutions.

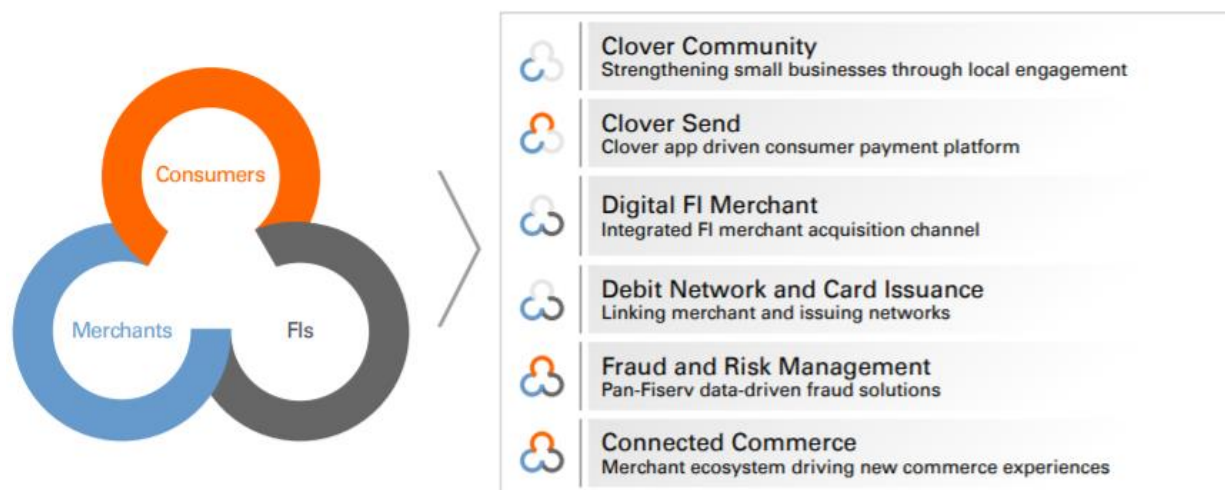
Digital Payments is the billing arm of Fiserv, enabling 1.5 billion bill-paying transactions a year. Peer-to-peer (P2P) transactions are one of the fastest-growing financial sectors due to the gig economy, seeing 267% transaction CAGR since 2017. Fiserv is dominant in the digital payments sector, having 24 of the top 25 financial institutions using Fiserv's bill pay solutions.

Card payments manage over 1.4 billion accounts across 80 countries. Fiserv manages 26 of the top 50 credit card issuers, with significant ability to grow within its existing customer base as developing economies in Asia and South America move increasingly away from cash.

Future and Strategy

Fiserv's core operation is the execution of transactions, but in their "horizontal commerce solutions" plan, there is much opportunity to be had from consumers discovering products through its recommendation engine to checkout options, including financing. Some of these are already seeing limited implementation through Carat or through its partners, with Fiserv partnering with Amazon Alexa to drive new commerce through the novel AI voice assistant market.

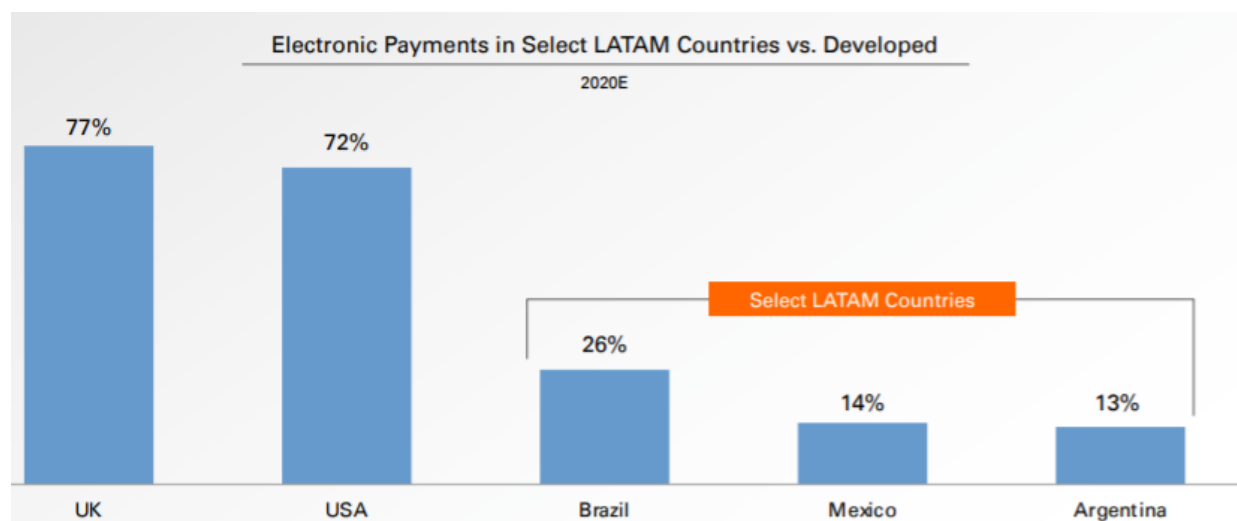
Delivering Increased Value for Clients



With the increasing integration of commerce to omnichannel sources and the advent of Clover and Carat, Fiserv is increasingly able to leverage its economies of scale to deliver optimal solutions for each client. This includes

a joint venture with Deutsche Bank to give Clover access to 800,000 merchants across Germany.

Asia Pacific (APAC) is, and it's quickly emerging middle class who use credit and debit more than cash presents a massive opportunity for Fiserv, who already has a major foothold in several areas. In India, for example, Fiserv already processes 65% of credit card transactions in the country. In Latin America, a similar story to APAC can be told. Fiserv has a massive presence to be leveraged into new markets, which they have successfully done, having an active merchant CAGR of 31% since 2015 and growing its market share in Argentina from 19% to 48% in just 2 years. This could set them up for a true dominance in the region, with many Latin American countries lagging behind the UK and US for digital payment availability.



Risk

Fiserv has a dominant market share in several sectors, which is advantageous to its bottom line but poses certain risks. For example, should Fiserv experience cyberattacks, customer data breaches, be unable to keep up with competitors' R&D, many firms may turn away from using Fiserv. In addition, fintech is targeting payment systems. If Fiserv fails to innovate, it could find its products inferior to the new Fintech offerings, resulting in declining customers and revenues.

Metrics

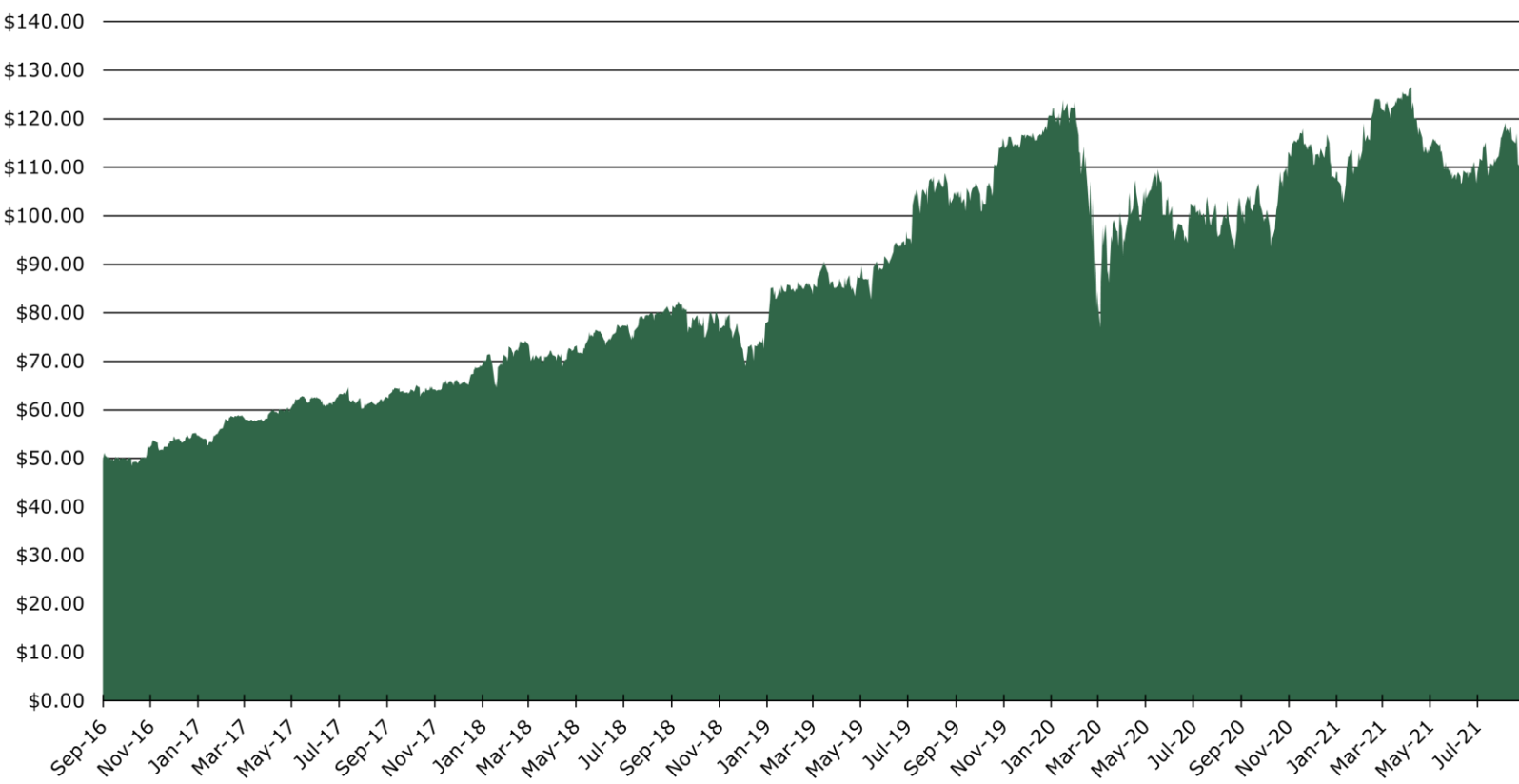
Fiserv saw strong growth across all its segments in Q2 2021, including revenue up by 20% year over year and operating margin increasing by 5.1% to 33.9%.

While Fiserv does not currently issue dividends, they have engaged in a share repurchase program to \$588 million. In addition, it is using nearly \$1 billion in free cash flow to continue its program of bolt-on acquisitions.

Fiserv (FISV)	E2021	E2022	E2023
Price-to-Sales	4.7	4.3	4.0
Price-to-Earnings	19.4	16.6	14.2
Gross Margin %	51.0%	51.9%	50.3%

Estimated Next 12 Months	Dividend Yield	Price-to-Sales	Price-to-Earnings
Fiserv (FISV)	0.0%	4.4	17.3
Fidelity National Information Services (FIS)	1.3%	5.2	17.2
Jack Henry & Associates (JKHY)	1.1%	6.5	36.0

Fiserv (FISV)



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