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## Fiserv: Gaining Leadership in Payments with Huge Free Cash

Price \$95.22

Growth Holding

October 13, 2022

- Free cash machine with over \$5 billion a year, expecting 20% growth in earnings per share.
- Core payments business remains strong and stable, with market share growth in point-of-sale systems with Clover.
- One of the main processing partners for Zelle, processing nearly \$500 billion in P2P transactions a year.
- Targeting technology-rich competitive advantage, raising guidance after outperformance in 2Q22.
- Recovery from margin contraction in 1Q22, projecting >5% organic revenue growth in all reportable segments and margin expansion of over 1%.

### Investment Thesis

Fiserv (FISV) is a financial technology firm specializing in payments for e-commerce and processing. Through aggressive M&A, FISV hopes to establish a competitive advantage through advanced features in its platforms.

Despite margin contraction in 1Q22, FISV beat targets for EPS and revenue in 2Q22, increasing guidance for the end of the year. Margin expansion is still expected to be over 1% for all segments; the most impressive revision comes from organic revenue growth now expected at 9-11% for all of FY22.

FISV has consistently outperformed its own estimates and has successfully leveraged several M&A actions in FY21 to gain a foothold globally. These merger actions have already realized \$700 million in additional revenue as a result of acquisitions, 2 years ahead of schedule.

FISV has large amounts of free cash generation capability, with free cash growing at a CAGR of 61% over the last 3 years allowing it to deploy capital easily. For this reason, we believe that FISV will continue to gain a foothold in the payments and customer point of sale sectors.

Estimated Fair Value: E2023 P/E 14.5 times E2023 EPS \$6.90 = \$100.50



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Fiserv (FISV)	E2023	E2024	E2025
Price-to-Sales	3.7	3.4	3.2
Price-to-Earnings	14.5	12.7	11.0
EV/EBITDA	11.4	10.3	9.2

### Customer Acceptance and Point of Sale

Acceptance is the B2B commerce platform, providing point-of-sale (POS) devices, sales and retention services, and inventory management and makes up 42% of revenue. The fastest growing products in the lineup are Clover and Carat. Clover is the POS system targeted at small and medium-sized businesses (SMBs). Through its wide variety of features including customer relations management (CRM) and inventory management, it has become a leader in omnichannel solutions for SMBs. As of 2Q22, Clover saw 24% revenue growth in 1H22 driven by a 10% increase in merchant volume. This trend continues from the previous 2-year CAGR of 29%. While Clover still does not have anywhere near a dominant market share – it is growing at a fast pace. Carat is the enterprise counterpart to Clover offering a single point of entry to the FISV ecosystem. Carat has a 2-year revenue CAGR of 21% and a 1H22 revenue growth of 22%.

Fiserv has lofty goals for the segment, projecting it to grow at an 11.5% CAGR in revenue until it breaches \$10 billion in revenue in 2025. This would explode free cash, with FISV sitting at 65% conversion in 2Q22 and expecting 95-100% conversion for FY22 in total.

### Fintech and Payments

Fintech makes up 20% of revenues and is a global provider of professional services related to financial technology. FISV operates a clearing network and account processing for depository customers, as well as FP&A tools for those depository customers. The core of the segment is made up from the acquisition of [Finxact in early FY22](#). Still considered developing by FISV, the



competitive advantage they are hoping to establish is to give developers access to tools that enable [hyper-personalized financial planning](#).

The payments segment makes up 38% of revenue and provides processing for card transactions, risk management for credit products, credit products like automatic bill pay and prepaid cards, and implementation of Zelle at points of sale or for financial institutions. FISV has an aggressive M&A operation, using it to gain a leadership position in the payments sector. A potential M&A target in the future is [Spanish bank Sabadell's payment arm](#). FISV is believed to be on the shortlist of buyers according to Reuters. This acquisition could open the door to further product offerings from FISV, as the Sabadell segment focuses primarily on consumer lending services.

Zelle is an e-transfer system that is operated by FISV on behalf of Early Warning Services and has seen explosive growth in recent years. Number of clients with Zelle increased 54% in 2Q22, with an increased volume of 35%.

## Risk

The primary risk facing FISV is competition. FISV deploys a lot of capital expenditures toward gaining market share, but it still trails behind many big names. If it is unable to realize market share growth it is unlikely to remain competitive in the marketplace.

Inflation and increasing investment shrunk margins considerably in 1Q22, amounting to a [small cut in staff](#). While recovery has already been realized in 2Q22, FISV does expect minor deceleration in 2H22 as consumer spending declines.

## Peer Comparisons

Estimated Next 12 Months	Dividend Yield	EV-to-EBITDA	Price-to-Sales	Price-to-Earnings
<b>Fiserv (FISV)</b>	0.0%	11.4	3.8	14.8
<b>Visa (V)</b>	0.8%	18.4	12.7	23.7
<b>Mastercard (MA)</b>	0.7%	21.1	12.6	26.8
<b>Paypal (PYPL)</b>	0.0%	15.2	3.6	20.8
<b>Fidelity National Information (FIS)</b>	2.3%	10.3	3.5	11.6

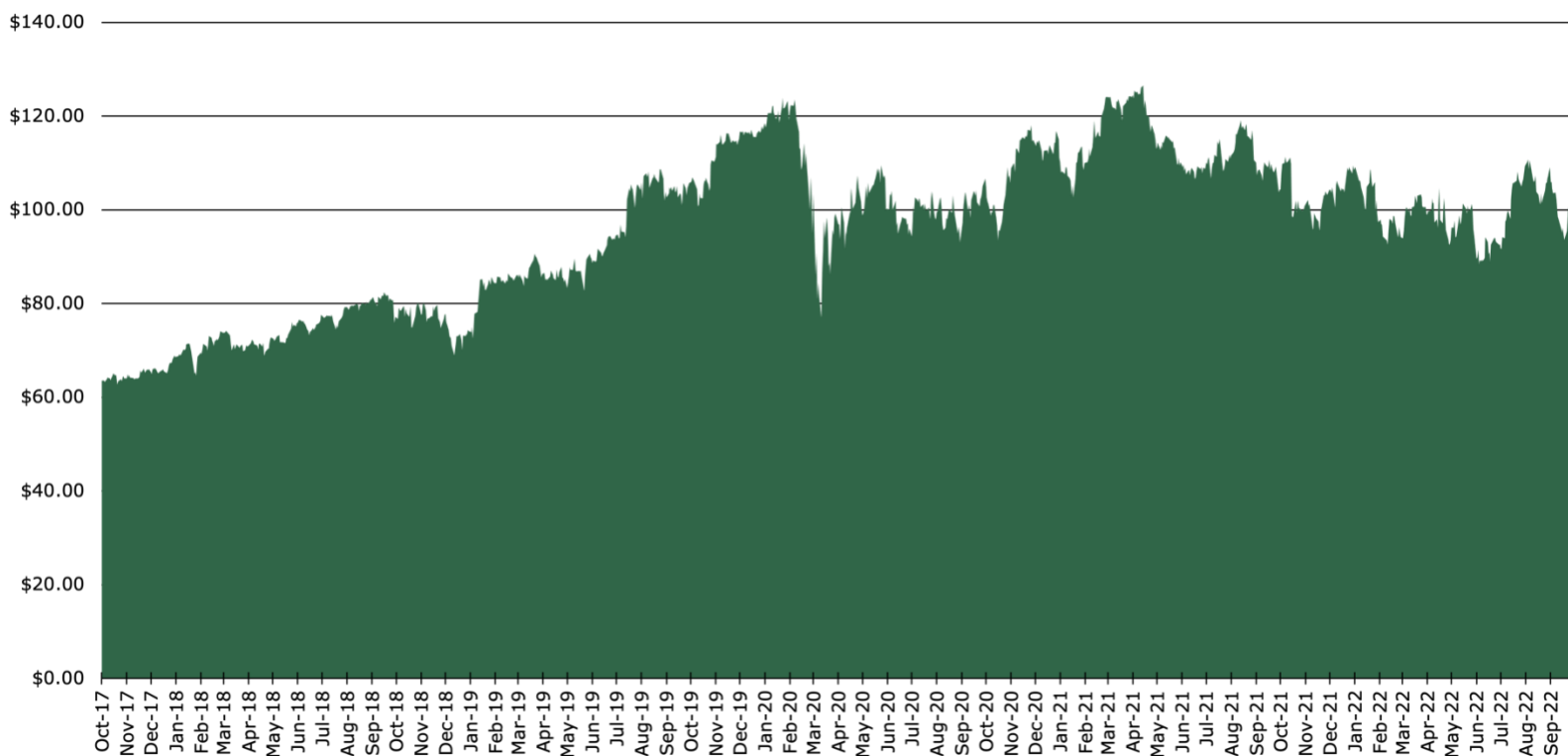


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<b>Block (SQ)</b>	0.0%	38.2	2.1	51.0
<b>Jack Henry &amp; Associates (JKHY)</b>	1.0%	20.9	6.6	37.5
<b>Western Union (WU)</b>	6.5%	6.5	1.3	8.1

## Fiserv (FISV)



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