Business Process Outsourcing

Weekly Payments Bytes

Our weekly note reviews the most interesting financial tech news tidbits from the past week, and comments on potential implications for our stocks. We also highlight upcoming events and comment on the past week's stock performance.

- **Financial Tech Tidbits:**
  - **Square gets conditional approval for industrial loan charter.** The company also received approval from the Utah Department of Financial Institutions for this purpose. The approval grants Square the ability to operate a bank (expected to launch in 2021). The main objective will be to provide small-business loans for Square's Capital lending business and to offer deposit products.
  - **Fiserv announced the acquisition of Bypass Mobile, a First-Data ISV and innovator in enterprise point of sale systems providers and national restaurant chains (link to note).** Fiserv already recognizes all the revenue from Bypass, but now won't have to pay sales expense (adds to EBIT).
  - **Transferwise partners with Alipay for international money transfers.**The launch enables TranferWise's now 7 million+ users to send Chinese yuan from 17 currencies to Alipay users, which serves more than 1.2 billion people worldwide.
  - **San Francisco-based Oto Analytics (DBA Womply), looked at payment card data from its merchant acquiring partners during the week of March 13.** Lodging -25% (noted a bigger drop on the way), transportation -85%, arts/entertainment -37%, grocery stores +87%.
  - **Shift4Payments to suspend some fees for SMB's for three months.** Shift4 Payments is suspending online ordering fees, gift card fees, and some fees for its SkyTab POS device, as restaurants are left only with takeout/delivery service following several state bans on dine-in services.
  - **Small business lender Kabbage launched a platform for gift certificates to support local small businesses during the coronavirus crisis.** The gift certificates, which range in value from $15-500, can be redeemed at any time; small businesses receive the revenue within one business day of purchase.
  - **Data from our new reality...**
    - We see a lot of new area codes when working from home.
      - Dave: "A 330 area code looks quite safe"
      - Client "Never have I yearned so deeply to be back in Akron"
    - The girls are schooling from home, and Madeline's history paper on cause and effect of the virus..."it all points to one thing...we should've bought stock in Amazon before this."
    - Dave's pilot friend isn't busy. His cleaning business friend doubled down. His food distribution brother-in-law sees polar opposites of pace of grocery buying and pace of restaurant buying. Volatility is scary for everyone.

- **Performance Relative to S&P (chart next page):**
  - **Outperformed by 3%+:** None
  - **Outperformed by 1-3%:** None
  - **Roughly neutral (-1% to +1%):** None
  - **Underperformed by 1-3%:** JKHY, V
  - **Underperformed by 3%+:** MA, FLT, FISV, FIS, WEX, GPN, VRRM

INDUSTRY UPDATE

Prices as of 3/19/2020

Ticker	Price	Mkt Cap (mil)	Rating	Risk
FIS	$105.23	$65,558	O	A
FISV	$84.46	$58,674	O	L
FLT	$193.30	$17,474	N	H
GPN	$130.52	$39,456	O	A
JKHY	$148.57	$11,425	N	L
MA	$227.15	$230,103	O	H
V	$152.25	$344,846	O	A
VRRM	$6.51	$1,067	O	H
WEX	$100.42	$4,408	O	H

Sources: FactSet and Baird Data

Please refer to Appendix - Important Disclosures and Analyst Certification

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Details

Recent Management Travel/Conversations

- **WEX (February 25, 2019) –** We traveled with head of IR -- Link
- **V (November 13, 2019) –** We traveled with IR -- Link
- **GPN (September 25, 2019) –** We hosted a call with COO and CFO -- Link
- **WEX (August 8, 2019) –** We traveled with CFO and head of IR -- Link
- **FIS/WP (April 10, 2019) –** We traveled with FIS CEO/CFO/IR and WP CEO/IR -- Link
- **FIS (February 19, 2019) –** We met with CFO/IR -- Link
- **FISV (January 23, 2019) –** We hosted lunch with CEO/CFO/IR -- Link
- **JKHY (December 9, 2018) –** We traveled with CFO for two days in Europe - Link
- **FDC (August 19, 2018) –** We traveled with head of IR – Link
- **MA (June 21, 2018) –** We traveled with CFO and EVP IR for four days - Link

Recent Data Points

- **February US retail sales (March 17) -** Link
- **February UK Barclaycard Retail Sales (March 10) -** Link
- **Most Interesting 10-K/10-Q Datapoints (March 6)** - Link
- **Debt review across Fintech (March 6)** - Link
- **January International Passenger Travel Data (March 5) -** Link
- **2020 Core Processing Survey (January 8) -** Link
- **December currency update within fin tech (December 31) -** Link

Recent Performance

Payments Stock Performance

	Last Week		Last Month		YTD	
	Return	**Alpha**	**Return**	**Alpha**	**Return**	**Alpha**
S&P 500	-3%		-29%		-25%	
JKHY	-4%	-1.4%	-15%	14%	2%	27%
V	-5%	-2.0%	-29%	0%	-19%	6%
MA	-6%	-3.1%	-34%	-5%	-24%	1%
FLT	-10%	-7.0%	-40%	-11%	-33%	-7%
FISV	-11%	-8.1%	-32%	-3%	-27%	-2%
FIS	-11%	-8.3%	-33%	-4%	-24%	1%
WEX	-13%	-10.5%	-57%	-28%	-52%	-27%
GPN	-17%	-14.1%	-37%	-8%	-29%	-3%
VRRM	-18%	-15.3%	-62%	-33%	-53%	-28%

Source: FactSet; Returns use market close 3/19/20

Price Targets and Risks

Price Targets

- **FIS (FIS-Outperform)** – Our $156 price targetreflects ~21.5X our 2021E EPS of $7.30. Our ~21.5X multiple reflects a ~30% premium to the current S&P's NTM P/E, above the FIS/WP three-year combined average of 16%, as (1) faster-growth Worldpay is now in the FIS/WP fold, and (2) EPS growth will likely grow faster over the next few years (likely high teens) than in recent years.
- **Fiserv (FISV-Outperform)** – Our $126 price targetreflects ~21.5X our 2021E EPS of $5.85. This reflects ~30% premium to the S&P's NTM P/E, similar to FISV's three-year average of ~30%. We think faster growth profile is offset by slightly higher leverage, resulting in an average premium of the past few years.
- **FleetCor (FLT-Neutral) –** Our $304 price targetreflects ~20.5X our 2021E EPS of $14.78. This reflects a ~25% premium to the S&P's NTM P/E, above the three-year average of 12% (range is 15% discount to 39% premium). We admit that FLT has some cyclical risks around fuel, travel volumes, etc., which make it viewed to be a little more macro sensitive.
- **Global Payments (GPN-Outperform)** – Our $195 price target reflects ~21.5X our 2021E EPS of $8.98, reflecting ~36% premium to the S&P's NTM P/E, above three-year average of 26% (range 6-45% premium), given improving leverage, improving EPS growth, and relative safety in a volatile market.
- **Jack Henry (JKHY-Neutral)** – Our $168 price targetreflects ~38.5X our C2021E EPS of $4.34, and ~108% premium to the S&P's NTM P/E, slightly above the three-year average premium of 100% (below three-year high of ~141%). The stock is currently ~120% premium, so investors are clearly willing to pay up.
- **MasterCard (MA-Outperform)** – Our $314 price targetreflects ~31X our 2021E EPS of $10.10. This reflects ~90% premium to the S&P's NTM P/E, above the three-year average of 72% (range 36-102%) due to very strong growth in recent quarters, along with the investment community bidding up the defensive secular growth companies later in a cycle.
- **Visa (V-Outperform) –** Our $196 price target reflects ~28.5X our C2021E EPS of $6.91. This reflects a ~75% premium to the S&P's NTM P/E, above the three-year average of 58% due to strong ongoing momentum in payments, strong secular trends, and relative valuations above normal across fin tech (given lower-than-average cyclical risk).
- **Verra Mobility (VRRM-Outperform) –** Our $9 price targetreflects a P/E multiple of ~14.5X our 2021E EPS of $0.62, which reflects a market multiple. We think the company remains a good asset and an attractive potential take-out, but is in an uncertain time, and leverage could rise back to ~4X as EBITDA falls.
- **WEX (WEX-Outperform) –** Our $195 price target reflects ~18.5X our 2021E EPS of $10.56. The ~18.5X multiple is ~15% premium to the S&P's NTM P/E, in line with the three-year average of a 15% premium. We admit, there are some cyclical risks around fuel exposure, some travel volumes, and higher leverage.

Risks

- **FIS (FIS-Outperform) –** Bank consolidation, bank spending fluctuations, acquisition integration, pricing pressure, client concentration, and currency fluctuations.
- **Fiserv (FISV-Outperform) –** Bank consolidation, economic fluctuations on payment volumes, pricing pressure, weaker bank spending.
- **FleetCor (FLT-Neutral) –** Fuel price volatility, currency fluctuations, interest rate risk, travel sensitivity, acquisition integration risk.
- **Global Payments (GPN-Outperform) –** Consumer spending fluctuations, regulatory risk, currency fluctuations, acquisition integration risk, pricing pressure, increased competition, breach pressures.
- **Jack Henry (JKHY-Neutral) –** Bank consolidation, bank spending fluctuations, acquisition integration, and pricing pressure.
- **MasterCard (MA-Outperform) –** Consumer spending fluctuations, regulatory risk, litigation risk, currency fluctuations, international travel fluctuations, pricing pressure, alternative payment systems, acquisition integration risk.
- **Visa (V-Outperform) –** Consumer spending fluctuations, regulatory risk, litigation risk, currency fluctuations, international travel fluctuations, alternative payment systems, pricing pressure, acquisition integration risk.
- **Verra Mobility (VRRM-Outperform) –** Client/partner concentration, pricing pressure, leverage, potential government legislation changes, equity ownership concentration.
- **WEX (WEX-Outperform) –** Fuel price volatility, currency fluctuations, interest rate risk, travel sensitivity, industrial bank subsidiary regulations, acquisition integration risk, customer credit risk.

Appendix - Important Disclosures and Analyst Certification

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Covered Companies Mentioned

All stock prices below are the 3/19/2020 closing price.

FIS (FIS - $105.23 - Outperform)
Fiserv, Inc. (FISV - $84.46 - Outperform)
Fleetcor Technologies Inc. (FLT - $193.30 - Neutral)
Global Payments Inc. (GPN - $130.52 - Outperform)
Jack Henry & Associates, Inc. (JKHY - $148.57 - Neutral)
MasterCard Incorporated (MA - $227.15 - Outperform)
Verra Mobility Corporation (VRRM - $6.51 - Outperform)
Visa Inc. (V - $152.25 - Outperform)
WEX Inc. (WEX - $100.42 - Outperform)
(See recent research reports for more information)

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