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Recommendation: **BUY**

UConn Student Managed Fund

Fiserv (NYSE:FISV)

February 21, 2022

Target Price: \$134.87	Market Cap (\$B): \$62.148 B	P/E Ratio (TTM): 47.40
Current Price: \$94.13	Dividend Yield: N/A	EV/EBITDA: 16.84
Stop loss: \$84	Beta: 0.80	EBITDA Margin: 33.80%
52 Week High/Low: \$127.34/\$92.06	ROE: 4.30%	Gross Margin: 49.91%

Company Overview

Fiserv is a leading provider of financial technology solutions, including electronic payment processing, internet and mobile banking, and account processing services, FISV has more than 12,000 clients worldwide, which include banks, credit unions, investment management firms, leasing and finance companies, billers, retailer, and merchants. FISV was incorporated in 1984 and is headquartered in Brookfield, Wisconsin.



Industry Outlook

Fundamental outlook for the data processing & outsources services subindustry is neutral. Participants across the subindustry carry out a wide scope of applications, including payments for goods and services, human resource payroll processing and outsourcing. Following a host of pandemic-related headwinds in 2020, the lion's share of CFRA's coverage universe has staged a large recovery in transaction volumes has been concentrated around important merchant verticals, that offer higher yields and lend a boost to margins – importantly, tailwinds likely persist into early 2022, as the areas that felt the brunt of the impact. We estimate aggregate revenue levels across the subindustry will rise by 18% and adjusted earnings per share by 29% in 2021, aided by suppressed comparable and a systemic recovery in company fundamentals. In the near term, transaction and dollar volumes should swing from steep declines to mid-teens or higher growth in 2021. We advise investors to monitor levels of personal consumption expenditures (or PCE) to gauge the breadth of the recovery – Action Economics (AE) currently estimates PCE to expand by 8% in 2021 but moderate into the back-half of the year. Underlying payment economics likely flip to tailwinds as consumers resume usage of additional services (e.g., loyalty programs) and provide an uplift to take-rates. Longer-term, we expect digital payment methods to incrementally displace cash transactions. Similarly, HR processing companies have been hurt by unfavorable employment trends, shrinking worksite levels, and a lower number of processed paychecks – all due to the Covid19 pandemic. The lower interest rate environment has also tempered net interest income. However, like most of the other counterparts in the subindustry, all past headwinds should flip to tailwinds in 2021 and aid in the recovery to fundamentals. Long term, however, we think competitive dynamics continue to lean in favor of more nimble cloud led Human Capital Management (HCM) peers, making legacy companies more susceptible to client switching and weighing on record retention levels (90%+ in some cases) that some have benefited from during the pandemic. The S&P Data Processing Outsourced Services Index has returned 2.9% through October 22, lagging the advance of 21% from the S&P 1500. We think the underperformance is tied to the general sensitivity to the consumer and implications around other widely publicized events, including digital assets and recent M&A that the subindustry has had. We note from a five-year CAGR perspective, the subindustry has rose 23.4%, handily outpacing the S&P 1500, which increases by 16.1%

Investment Thesis

- The global financial technology market is expected to reach a market value of ~\$324 billion by 2026, growing at a CAGR of 25.18%
- Fiserv is well-positioned to take advantage of the continued growth in e-commerce.
- Because most of their agreements with merchants and financial institutions involve taking a percentage of each transaction, Fiserv's revenues will increase with rising prices due to inflation.
- As emerging markets adopt more advanced technology, Fiserv will continue to increase its global footprint.
- Fiserv has made a series of forward-thinking strategic acquisitions that position it ahead of the curve in regard to innovation, capitalizing on existing client and customer relationships while acquiring new ones

ESG Considerations

TGT Has no outstanding ESG issues.

Fiserv Inc FISV Morningstar Rating

Rating as of Feb 11, 2022

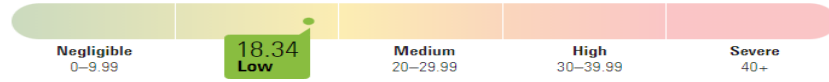
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Sustainability

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

 **Moderate**

Incidents: Customer

Top 3 Material ESG Issues

Data Privacy & Security
Overall

Human Capital
Overall

Business Ethics
Overall

ESG Risk Rating is as of Feb 02, 2022. Highest Controversy Level is as of Feb 08, 2022. Sustainalytics Subindustry: Data Processing. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/).