FIS (FIS)  
Baird Facts  

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/15/20)</th>
<th>132.22</th>
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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>158 - 92</td>
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<tr>
<td>Market Cap (mil)</td>
<td>82,638</td>
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<tr>
<td>Shares Out (mil)</td>
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<tr>
<td>Float (mil)</td>
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<tr>
<td>Avg. Daily Vol (mil)</td>
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<tr>
<td>Dividend ($)</td>
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<tr>
<td>Yield (%)</td>
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<tr>
<td>Rating:</td>
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<tr>
<td>Suitability:</td>
<td>Average Risk</td>
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<td>Price Target ($) :</td>
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<td>L-Term Rev. Gr Rate Est:</td>
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<tr>
<td>L-Term EPS Gr Rate Est:</td>
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<td>Debt/Cap:</td>
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<tr>
<td>ROE:</td>
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<tr>
<td>Outperforms</td>
<td>FY Dec</td>
</tr>
<tr>
<td>2019A</td>
<td>2020E</td>
</tr>
<tr>
<td>1.16A</td>
<td>1.28A</td>
</tr>
<tr>
<td>1.30A</td>
<td>1.08E</td>
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<tr>
<td>1.43A</td>
<td>1.50E</td>
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<tr>
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<td>1.75E</td>
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<tr>
<td>5.61A</td>
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<tr>
<td>FY P/E</td>
<td>23.6x</td>
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Company Description
Headquartered in Jacksonville, FL, Fidelity National Information Services is a leading provider of core processing for financial institutions, card issuing and transaction processing services, and various other outsourcing services. The company has core processing and technology relationships with 40 of the top 50 global banks and nine of the top 10. FIS serves more than 20k clients from over 130 different countries. The company was created in February 2006 when Certegy merged with Fidelity National Financial's Information segment. Fidelity acquired eFunds in mid-2007, spun out its Lender Processing business in June 2008, acquired Metavante in October 2009 (competing core provider) and Capco (consulting) in December 2010. In November 2015, FIS acquired SunGard. In July 2019 FIS closed the acquisition of Worldpay.

Revenue Profile
Merchant Solutions (~30% of revenue) - this segment is a combination of legacy Worldpay’s merchant and technology segments as well as legacy FIS’s merchant solutions.
- **Legacy Worldpay Merchant (~45-50% of segment)** composed of the following:
  - **Legacy Vantiv (~25% of segment):** Includes large retail, ISO, and bank channel
  - **Old legacy Worldpay (~25% of segment):** Includes legacy Worldpay UK (~15% of segment) and legacy Worldpay US (~10% of segment).
- **Legacy Worldpay Technology Solutions (~45% of segment)** composed of the following:
  - **Legacy Vantiv (~25-30% of segment):** Consists of e-commerce (~22% of segment; processing online payments for merchants) and ISV channels (~6% of segment; fully integrated payment processing solutions).
  - **Old legacy Worldpay (~15-20% of segment):** Consists of only e-commerce (processing online payments for the merchant).
- **Legacy FIS Merchant (~5-10% of segment)**
Banking Solutions (~47% of revenue) - this segment is a combination of legacy Worldpay’s Issuer Solutions segment, legacy FIS’ IFS segment (less merchant portion) and legacy FIS’ GFS segment (less SunGard/Capital Markets portion).
- **Legacy FIS’ IFS segment less merchant (~70-75% of segment):** This includes the following:
  - **Banking & Wealth (~30-35% of segment):** The company has the largest share of >$1 billion asset banks, and services ~42 million outsourced accounts. FIS has ~1,700 US core clients, core deposit/loan account processing, and general ledger sold to banks on an outsourced or in-house basis.
  - **Payments (~25% of segment):** The company provides issuer processing (both credit and debit) for ~370 million cards.
  - **Corporate & Digital (~15% of segment):** Includes mobile and internet banking, bill pay, and corporate treasury solutions. FIS has over 36 million mobile users.
- **Legacy FIS’ GFS segment less SunGard/Capital Markets (~20-25% of segment):** This includes legacy Banking & Payments (core banking, issuer services, and prepaid). Primary geographies include US, Brazil, Europe, UK, and India and primary competitors are Cognizant, Temenos, ACI, Accenture, SAP, Infosys, and TCS.
- **Legacy Worldpay Issuer (~5% of segment):** This is legacy Vantiv’s Financial Institutions Services segment. Provides debit issuer card processing services to financial institutions. Services include point-of-sale authorization (sends debit card authorization message from bank after a card is swiped), statement/card production, and managed services (fraud detection, customer care, analytics).

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Capital Market Solutions (~21% of revenue) - primarily consists of legacy FIS’ SunGard acquisition, which provides software and processing services for the financial service and capital market sectors.

**Competition**

**Core Processing:**
- **Market Size** - Total market of ~$75-80 billion (mostly internally developed software at big banks); we estimate ~$40 billion outsourced market (~$17 billion from core processors).
- **Competition** - In-house solutions, Jack Henry, Fiserv, Finastra (D+H and Misys combination), Correlation, Computer Services, OSI, COCC, Cognizant, Temenos, ACI, Accenture, SAP, Infosys, and TCS
- **Growth** - Historically, outsourced core processing grows around mid-single-digits (range typically ~2-7%); we expect 3-6% growth over the next few years.

**Merchant Processing:**
- **Market Size** - US merchant processing market is ~$17-18 billion in net revenue (based on our estimate 20-30bps of ~$7.0 trillion of last four quarters of volume).
- **Competition** - Includes FDC (~35-40% share, including banks that partner with FDC), large banks with stand-alone platforms (ex: Chase Paymentech ~10-15% of volume; US Bank's Elavon ~5% of volume); large independent processors (ex: FIS/WP ~15% of volume; Global Payments ~5% of volume)
- **Growth** - Typically is mid/high-single-digits which includes GDP growth of low single digits plus ~1-3% benefit from increased penetration of electronic payments/card plus new revenue sources.

**US Issuer Processing:**
- **Market Size** - We estimate the US outsourced issuer processing market is ~$6-7 billion (~$3-4 billion is credit and ~$3-4 billion is debit).
- **Competition** - Credit issuer competition includes GPN/TSS (~30-35% share), FISV/FDC (~25-30%), FIS/WP (~10-15%) and in-house (~20%). Debit issuer competition includes FIS (~30% share), FISV (~25-30%), V (~15%), MA (10%), JKHY (~5-10%), and in-house (~15-20%).
- **Growth** - We estimate ~3-6% growth which is driven by ~5-8% transaction growth, partially offset by pricing.

**Quick Summary**
- **Q1 FIS results similar to preannounced ranges provided on April 13.**
  - Adjusted EPS $1.28, above consensus $1.27 (we were $1.27; preannouncement indicated $1.26-1.28). Variance to our estimate was due to margins (-$0.01), tax (+$0.03), and other (-$0.01).
  - Reported Revenue of $3.08 billion in line with preannounced range of $3.06-3.08 billion. Organic constant-fx +2% yoy as expected.
  - Adjusted EBITDA of $1.25 billion was slightly below our $1.27 billion estimate; margin 40.5% (+510bps yoy) was below our 41.3% margin estimate.
- **Q1 segment performance:**
  - **Merchant Solutions (~30% of revs)** $935 million was flattish yoy organic constant-fx growth. April trends include volumes stabilizing around -30% (similar to others); organic revenue growth -40% due to timing of tax filing business (should turbocharge Q2 as merchants and tax come back).
  - **Banking Solutions (~47% of revs)** $1.462 billion grew +1% yoy organic constant-fx growth, but +3% ex-term fee in Q1-19. Declines in issuer processing/debit network/account transaction volumes related to COVID-19 remain a headwind, with segment trending flat/down slightly in April.
  - **Capital Market Solutions (~21% of revs)** $631 million (we were $621 million), up 8% organic constant-fx growth. April is trending flat/down slightly, as very good trends offset by weakness in the ~30% of revenue that is non-recurring.
- **Key positives from the Q1 call:**
  - New wins remain very strong in Banking
  - Raised annual cost synergies by $100 million
  - Added new $300 million short-term cost savings program (could add ~$0.40 to annualized EPS)
- **Our $170 price target** reflects ~23X our prospective NTM EPS a year from now of $7.40 (using 12 months ending 6/30/2021). A 23X multiple reflects an ~15% premium to the current S&P's NTM P/E, near the FIS/WP three-year combined average of 17%.
Investment Thesis

Relatively resilient business model. FIS' recurring revenue represents ~80% of total, while Worldpay's volumes include resilient grocery/drugstore/eComm retailers.

Solid long-term growth expectations. We expect EPS to grow high-teens over the next several years, driven by 6-8% revenue growth, modest core margin expansion, deal synergies, and buybacks.

Limited client concentration and high retention. With thousands of clients across many product lines, the company has very limited client concentration, and significant diversity in revenue streams.

Exposure to higher-growth eComm. Worldpay has been growing ~20%+ in eComm, and we expect strong growth to continue, with the added benefit of FIS' international banks as a possible channel.

Risks & Caveats

Consolidation in the banking industry. The financial industry has been ripe with consolidation over the last several years. As bank combinations occur, typically the technology provider at the acquirer is the company that wins the business. Depending on the make-up of future M&A in the banking industry, Fidelity could be at risk of losing business if its current clients are acquired.

Delays in project spending. During periods of economic uncertainty, FIS may consider delaying decision making on certain projects/license purchases (professional services and project-based revenue each ~8-10% of revenue). License is only ~2% of revenue.

Acquisition integration risk. Large acquisitions introduce risks into a business, including timing of anticipated deal closings, difficulty in integrating the acquired operations and personnel, and management challenges.

Currency movements could negatively impact results. Depreciation of certain currencies (Brazilian real, euro, British pound) could cause a reduction in revenue and operating profit. Appreciation of the Indian rupee could reduce operating profit as well.

Supplemental Information

<table>
<thead>
<tr>
<th></th>
<th>FIS Trends</th>
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<tr>
<td></td>
<td></td>
<td>Q1-19</td>
<td>Q2-19</td>
<td>Q3-19</td>
<td>Q4-19</td>
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<tr>
<td>Pro Forma Org Constant-fx (yoy)</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
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<tr>
<td>Merchant Solutions</td>
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<td>10%</td>
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<td>Banking Solutions</td>
<td>8%</td>
<td>5%</td>
<td>5%</td>
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<td>Capital Market Solutions</td>
<td>-3%</td>
<td>3%</td>
<td>5%</td>
<td>7%</td>
<td>8%</td>
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<tr>
<td>Adj. EBITDA Margins (post-606)</td>
<td>35.4%</td>
<td>37.6%</td>
<td>42.5%</td>
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<tr>
<td>Legacy Non-GAAP EPS</td>
<td>$1.16</td>
<td>$1.30</td>
<td>$1.43</td>
<td>$1.57</td>
<td>$1.28</td>
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<tr>
<td>Adjusted FCF/share</td>
<td>$0.76</td>
<td>$1.26</td>
<td>$1.22</td>
<td>$1.30</td>
<td>$0.86</td>
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<td>FCF % of EPS</td>
<td>66%</td>
<td>97%</td>
<td>85%</td>
<td>83%</td>
<td>67%</td>
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<tr>
<td>Net Debt (billions)</td>
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<td>$8.49</td>
<td>$18.89</td>
<td>$19.04</td>
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<td>TTM Net Debt/EBITDA (1)</td>
<td>2.7</td>
<td>2.7</td>
<td>3.6</td>
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Source: Company Reports, Baird Estimates
1 Robert W. Baird & Co. Incorporated makes a market in the securities of FIS.

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