Fiserv (FI) – BUY [9/5/2025]
Market Cap: ~$73.4B
Sector: Financial Services | Fintech / Payments
Description: Fiserv is a deeply embedded and integrated global payments and fintech provider.

Background and thesis:

Driven by fear of a slowdown its Clover product and margin pressure, Fiserv's stock fell from a recent all-time high of ~$238/sh to a current ~$135/sh. In both Q1 and Q2, Clover gross payment volume (GPV) increased ~8% compared to ~15% in CY2024. In Q2, Merchant Solutions (the operating segment that houses Clover) segment operating margins declined from 36.6% to 34.6% and management issued a slight guidance revision. In response to these new Clover datapoints, Fiserv lost ~$35B in combined equity value in the two trading days after each report, respectively.

The market is missing the forest for the trees. It is focused on near term, partially self-engineered, growth and margin challenges while underappreciating the: (1) stability, profitability, and strategic value of the Financial Solutions business, (2) long-term advantages of Fiserv's integrated business model, (3) Clover's substantial remaining whitespace and the success it is having in adding value-added services as a key growth driver, and (4) recurring free cash flow generation of the entire business which supports aggressive capital returns and strategic reinvestment programs.

The market is pricing Fiserv as if Clover's long-term prospects are impaired, but I believe this assessment of the Clover growth narrative is flawed. While giving credence to bears' fears around a slowdown in growth and a lack of transparency surrounding the Payeezy customer gateway transition, the secular tailwinds driving SMB digitization are intact. Though lower than 2024, "true" Clover organic GPV growth is still sustainably in the high single to low double digits. Even if overall Small Business revenue growth rates slow to 7% over the medium term, I still believe shares are undervalued. Given the margin of safety, shares at today's levels are attractive.

A conservative base case provides a fair value of $183/sh, +36% vs. the current price of $135/sh.

- If growth re-accelerates and the runway is slightly longer than anticipated, fair value is $223/sh (+66%).
- If growth slows dramatically and margins shrink, downside is limited to $101/sh (-25%).

Why opportunity exists and variant perception:

The market is focused on three negative, short term data points:

(1) Clover reported 8% GPV growth in both Q1 / Q2 of 2025

Clover's reported 8% GPV growth over the first two quarters of 2025 compare to quarterly growth rates of 14-17% reported in CY24. While the slowdown is concerning, I believe better contextualization creates a less dire story.

- First, management has explained that due to a Payeezy gateway conversion which took place in 2024 (and does not reoccur in 2025), reported YoY GPV growth in 2025 is not directly comparable, and should be adjusted upwards by ~2% in 2025. Further, with a ~1% adjustment for the leap year in 2024, management believes comparable YoY growth was closer to ~11% in Q2 2025, not 8%.
- Second, while GPV growth has slowed in the 1st half of 2025, management is confident that it will still hit its previous Clover revenue guidance of $3.5B for CY2025 and has left it unchanged. Total Clover revenue growth for the 2nd quarter was 27%, driven by continued higher value-added services penetration.

Variant perception: Taken together, Clover GPV growth has slowed, but not as much as the headline number suggests. Compared to Toast, a key competitor, the slowdown in GPV also suggests Clover's issue are not idiosyncratic. Toast announced a 8%/3% slowdown in Q1/Q2 2025 GPV growth, respectively (30%->22%, 26%->23%), showing that competitors are also struggling to maintain growth rates. I believe these datapoints signal a few things:

- First, this data lines up well with slowing restaurant same-store-sales seen in the first half of 2025. For example, historically fast-growing chains such as Chipotle and Sweetgreen have seen their SSS dop from ~10%+ to negatives, comparing Q2 2024 to Q2 2025.
- Second, and less positively, it does signal a potential maturing of the bundled payment processing opportunity in the U.S.

Thus, I do believe modelling in slower growth over the next 5 years to be prudent. That said, the international whitespace for Clover's solutions remains substantial and there are still clear secular growth trends benefitting the segment in the U.S. High single digit GPV growth rates are very reasonable over the next few years.

Additionally, value-added services penetration has been very strong, showing the success of the new offerings the company has brought to market, stemming from increased R&D spend since 2020. Even amidst a 1st half GPV slowdown, management has not adjusted total revenue guidance (includes value-added services uptake), exhibiting their confidence in the strength of their offering, an anticipated reacceleration, and the substantial runway to increase value-added services penetration in the coming years both domestically and internationally.

(2) Q2 2025 Merchant Solutions segment adjusted operating margins were down 200 bps YoY

Merchant Solutions segment adjusted operating margins decreased to 34.6% driven by (1) increased investment in SG&A, (2) the impact of the CCV (and 2 other) acquisition(s) and (3) increased investments in software and hardware. This data point, coupled with the slowdown in Clover GPV growth, is worrying the market because of it fears the increased spending is tied to increasing competition and the requirement to boost spending to sustain Clover growth.

Variant perception: If you assume CCV operating margins of ~15% (conservative for a sub-scale company) on ~$55M in quarterly revenue (~25% of $225M, CY24E rev), total merchant solutions operating margins would be expected to decrease by ~130 bps, all else equal (assuming no other changes to segment). This means increased SG&A + investment to improve Clover's offerings would account for the remaining ~70 bps gap on the ~200 bps decrease. Is this 70 bps increase concerning? Long term, I don't think it is. Fiserv is investing to scale Clover internationally as well as enter a new category (Hospitality). Spending upfront to improve the likelihood of success of these TAM expansions is reasonable. Increased SG&A is not expected to be recurring and will fade as scale is reached and operating leverage kicks in within these new geographies. The Fiserv model is highly sensitive to scale, and incremental revenue generates much higher incremental margins than overall company margins. From the recent William Blair Growth Stock Conference (6/4/25), the CFO noted:

> "We invest for organic growth. We bring new products and solutions to our client base. That allows us to bring incremental revenue in a very scaled business. So that revenue comes to the company at better than company average margin. We're able to take some of that the expanded margin, reinvest it back into the company to provide more growth, and let some of it drop to the bottom line and you see margin expansion."

While the increase in SG&A caused management to take down its adj. operating margin guide, they are still guiding to +100 bps of adj. operating margin growth in 2025 (from +125 bps). Further, on a two-year comp, Q2 2025 adj. operating margins are +90 bps from Q2 2023, demonstrating that even this near term decrease is still a strong number vs. the recent past. ***Zooming out further, we have seen segment adjusted operating margins increase from 25.4% in 2020 to ~35% today***. As value-added services penetration rates increase, margins should continue to appreciate as these services are inherently higher margin. This, in addition to the operating leverage that will continue to accrue to Fiserv's high-fixed-cost model, leads me to the conclusion that the market's inability to look through near term pressures creates an opportunity for the long-term investor. ***However, even modelling in <u>no segment margin expansion moving forward</u>, shares appear undervalued***.

<u>Modelling and valuation:</u>

I modelled 4 valuation cases to arrive at a range of intrinsic values, and to inform my view of margin of safety:

1. *<u>Base case (50% probability) – minimal margin improvement (+200 bps over 5 years):</u>* ***~$183/sh (+36%)***
2. *<u>Base case (20% probability) – no margin improvement</u>:* ***~$172/sh (+27%)***
3. *<u>Bull case (20% probability):</u>* ***~$223/sh (+66%)***
    - 100 bps margin improvement / yr over 5 years (much less than historical)
    - Merchant Solutions growth rates slow less dramatically (assume ~10% growth p.a. through 2029)
4. *<u>Bear case (10% probability – terminal growth = 1%):</u>* ***~$101/sh (-25%)***
    - ~370 bps margin compression over 5-year period
    - Merchant Solutions growth goes to 0% over forecast vs. current 10%+ growth and Financial Solutions growth slows to 3% from (6% currently).

The market's current valuation of Fiserv represents a very conservative outlook for the company. At today's price, there is a healthy margin of safety and considerable upside even if margins expand at a less-than-historical rate and the growth runway is only slightly longer than expected. ***In the bear case, I have margins compressing substantially and have growth falling off a cliff. While this scenario represents a 25% decline from the current prices, I believe the likelihood of this scenario playing out is extremely low. Altogether, shares currently represent a strong risk-reward profile.***

<u>#1 Base case assumptions:</u>

- Merchant Solutions growth declines to mid-single-digits (~6%) by 2029, driven by consistent slowdowns in Clover and Carat growth. Processing growth constant at 2% (less than projected inflation).
- Financial Solutions growth at 7% in 2025 reflecting sustained momentum from strong 1st half, slowing to 5% through forecast, matching historical market growth and reflecting steady market tailwinds.
- Adjusted Merchant Solutions operating margins expand to 38% by 2029, driven by post-acquisition synergies, higher value-added services attach rates (higher margin), and minimal operating leverage as scale is attained in international expansion markets.
- Financial Solutions margins expand 49.3% (+200 bps) by 2029, with smaller-than-historical margin increases assumed each year through forecast. I believe this is conservative as incremental segment margins are very high.
- Management guided to >100 bps of company-wide operating leverage per year over the medium-term at the end of 2023. Modelled assumptions assume only ~50 bps of operating leverage p.a. though actual margin expansion has far outstripped initial management guidance (Merchant Solutions = 300 bps p.a. and Financial Solutions = 175 bps p.a. since 2022).
- Tax rate assumed at 20%, reflecting management 2025 guidance.
- Capex as a % of revenue decreases to ~6.2% over time, which reflects the capex in the pre-Clover era. This will occur as the Clover product set matures and business capex reflects a steady-state, slower growth company.
- Assumes Fiserv uses 50% of unlevered cash flows after contracted debt payments for share repurchases, which is below recent rate of repurchases. Company can retire 15%+ of shares over forecasted period at this rate.
- Terminal growth rate is 3%, well below 10-year treasury rate of ~4.25% (reflects inflation expectations).
- Discount rate of 10%
- **Gives fair value of $183, or upside of +36%**

Revenues	2024	2025	2026	2027	2028	2029	Terminal
Merchant	$9,672	$10,676	$11,675	$12,653	$13,586	$14,448	
Financial	$9,491	$10,155	$10,663	$11,196	$11,756	$12,344	
Corporate and other	$1,348	$1,465	$1,571	$1,678	$1,783	$1,885	
Total revenue growth		*9%*	*7%*	*7%*	*6%*	*6%*	
Operating margins							
Merchant	37.0%	36.0%	36.5%	37.0%	37.5%	38.0%	
Financial	47.3%	47.3%	47.8%	48.3%	48.8%	49.3%	
Operating Income							
Merchant	$3,576	$3,843	$4,261	$4,682	$5,095	$5,490	
Financial	$4,492	$4,806	$5,100	$5,411	$5,740	$6,089	
Corporate and other	-$2,167	-$2,254	-$2,344	-$2,438	-$2,535	-$2,636	
Total (EBIT)	**$5,901**	**$6,396**	**$7,017**	**$7,655**	**$8,299**	**$8,943**	
NOPAT (20% tax rate)		$5,116	$5,614	$6,124	$6,640	$7,154	
(+) Depreciation & Amortization		$1,736	$1,862	$1,988	$2,112	$2,233	
(+) Amortization of acquisition-related intangible assets		$1,638	$1,638	$1,638	$1,638	$1,638	
(-) Capex		-$1,500	-$1,690	-$1,731	-$1,760	-$1,778	
Working Capital	$1,571	$1,708	$1,831	$1,955	$2,078	$2,196	
(-) Change in Net Working Capital		-$137	-$124	-$124	-$122	-$119	
Unlevered Free Cash Flow		**$6,854**	**$7,300**	**$7,895**	**$8,507**	**$9,128**	**$134,319**
Debt paydown		$1,561	$2,000	$2,271	$2,600	$3,000	
Share repurchases		$2,647	$2,650	$2,812	$2,954	$3,064	
Share price assumed for repurchase		$137	$150	$165	$182	$200	
Shares retired		19,360,212	17,622,548	17,000,616	16,233,305	15,310,235	

EV	$113,076
Debt	$29,255
Market Cap	$83,821
Shares oustanding - old	543,593,000
Shares oustanding - new	458,066,084
Assumed share price	$183
Current Fiserv share price	$135
Upside	36%

Catalysts:

- Steadying or reacceleration of Clover GPV growth
- Merchant Solutions margins moving back towards 2024 levels, reflecting impact of one-off 2025 events
- Aggressive capital return via share buybacks

Company overview:

While Fiserv was formed in 1984, today's Fiserv was created via the $22 billion merger with First Data in 2019. Fiserv has two reporting segments, Financial Solutions and Merchant Solutions.

Financial Solutions (~46% of revenue), which represents Fiserv's legacy core business (pre-merger), provides the mission-critical plumbing underpinning the operations of banks, credit unions, and other financial and non-financial institutions worldwide. Key products include core deposit and loan account processing, digital banking platforms (online and mobile), card issuer processing (credit and debit), network services (including the Accel and STAR networks), and a suite of solutions for risk management, compliance, and payments (such as Zelle P2P transfers).

The operational risk, cost, and complexity for a bank to switch its core processing system is immense, thus Fiserv's products are extremely sticky and client retention rates are high. It signs long-term (often for 5+ years) contracts with customers which generate predictable, recurring, and high-margin revenue streams.

Growth is driven by the need for digital transformation and digital payments in the financial sector, as many smaller banks and credit unions still operate on legacy systems, making them uncompetitive in the marketplace vs. bigger providers (e.g., JPM, BAC). These banks do not have the scale to develop their own systems cost-effectively, so it is outsourced to specialized providers such as Fiserv. While the market for net new customers is relatively saturated, the whitespace for continued core modernization of current customers creates a runway for consistent 5%+ market growth in the U.S.

From a competition perspective, the market is highly consolidated and rational, with the "Big Three" (Fiserv, FIS, and Jack Henry & Associates) core banking providers in the U.S. owning most of the market share (>70% in banks and 40-50% in credit unions). Fiserv alone holds >40% market share in banks and >30% market share in credit unions. As the banking market consolidates, new customer relationships are won when an acquiring bank chooses to implement its own software at the acquired bank or when a bank is dissatisfied with a current provider and its contract is up for renewal (although this is rarer).

Merchant Solutions (~47% of revenue) is the faster growing, but more competitive arm of Fiserv's business. Key Merchant Solutions products are Clover and Carat.

- **Clover** is a cloud-based POS and business management ecosystem for small businesses
- **Carat** is an enterprise-level commerce ecosystem built for the omnichannel needs of larger merchants

The Merchant Solutions products are distributed via a direct sales force, financial institution partnerships (referral model, "bundle-in-a-box"), and via independent software vendor (ISV) partnerships. ISV partnerships have become a more important growth driver as software providers look to embed financial services in their applications to create seamless experiences for customers and drive additional value via a revenue-sharing model. Key growth drivers are GDP growth, cash digitization, growing with current customers, increasing customer counts, value-added services, new geographies, and price increases

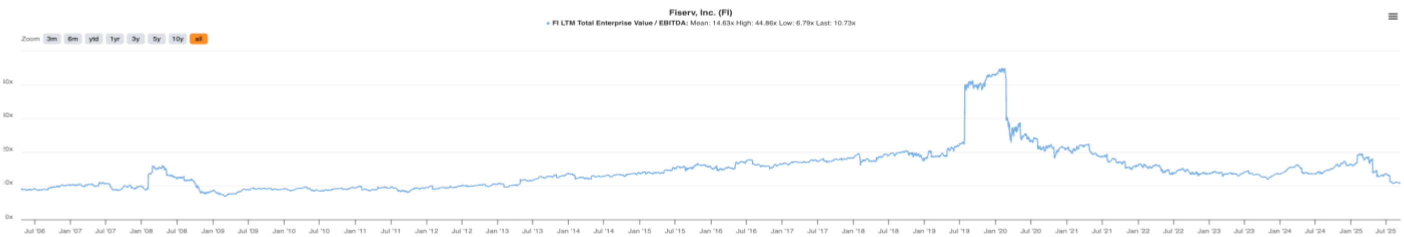
The Financial Solutions and Merchant Solutions businesses have important synergies. First, the consistent cash flow generated from the Financial Solutions arm has been used to build the Merchant Solutions offering. After the 2019 merger with First Data, R&D has increased from ~$721M in 2020 to ~$1.5B annually in 2022-24. This development spend went towards building additional offerings for the Clover and Carat products, which have become major company growth drivers. Second, the banking relationships in Financial Solutions provide a substantial distribution advantage for Fiserv's Merchant Solutions products, allowing a lower cost of customer acquisition than competitors. For example, Fiserv recently announced a strategic relationship with TD Bank to transition TD merchant customers to the Fiserv / Clover processing platform. Moving forward, the cash flows from Financial Solutions will continue to be an advantage as Fiserv expands its Merchant Solutions offerings with new products and into new verticals and geographies.

Appendix:

Fiserv Historical Financials Table: Fiserv's revenue, operating income, and ROIC (NOPAT / Invested Capital) have all increased substantially since the First Data acquisition in 2019.

	2020	2021	2022	2023	2024
Revenue	$14,852	$16,226	$17,737	$19,093	$20,456
Operating Income	$1,852	$2,288	$3,740	$5,014	$5,879
ROIC (Excl. Goodwill)	10.0%	12.3%	20.9%	28.0%	35.6%

Historic valuation multiples (LTM EV/EBITDA): Fiserv is trading at ~11x LTM EV/EBITDA. The last time it traded at this multiple of EBITDA was in 2013, when the company was a slower growing, lower margin business. The average LTM EV/EBITDA multiple since 2019 (post First Data acquisition) is ~19x and ~15x since 2021.



Relative valuation vs. peers (LTM EV/EBITDA, P/S):

- Jack Henry & Associates (JKHY), Fiserv's closest pure-play competitor in its Financial Solutions segment, trades at ~14.7x EV/EBITDA.
- Fiserv's closest pure-play competitor in Merchant Solutions is Toast. Toast trades at 4.2x LTM sales and Fiserv at 3.4x LTM sales. If Merchant Solutions was valued at a similar 4.2x sales to Toast, Financial Solutions would have an implied value of just ~7x adj. operating income.

Bull case model:

Revenues	2024	2025	2026	2027	2028	2029	Terminal
Merchant	$9,672	$10,689	$11,795	$12,995	$14,292	$15,691	
Financial	$9,491	$10,155	$10,866	$11,627	$12,324	$13,064	
Corporate and other	$1,348	$1,466	$1,594	$1,732	$1,872	$2,023	
Total revenue growth		*9%*	*9%*	*9%*	*8%*	*8%*	
Operating margins							
Merchant	37.0%	34.6%	37.0%	39.0%	41.0%	43.0%	
Financial	47.3%	48.1%	49.1%	50.1%	51.1%	52.1%	
Operating Income							
Merchant	$3,576	$3,698	$4,361	$5,065	$5,856	$6,743	
Financial	$4,492	$4,885	$5,335	$5,825	$6,298	$6,806	
Corporate and other	-$2,167	-$2,254	-$2,344	-$2,438	-$2,535	-$2,636	
Total (EBIT)	**$5,901**	**$6,330**	**$7,353**	**$8,452**	**$9,619**	**$10,913**	
NOPAT (20% tax rate)		$5,064	$5,882	$6,762	$7,695	$8,730	
(+) Depreciation & Amortization		$1,738	$1,889	$2,052	$2,219	$2,397	
(+) Amortization of acquisition-related intangible assets		$1,638	$1,638	$1,638	$1,638	$1,638	
(-) Capex		-$1,500	-$1,715	-$1,787	-$1,849	-$1,908	
Working Capital	$1,571	$1,709	$1,858	$2,019	$2,182	$2,357	
(-) Change in Net Working Capital		-$138	-$149	-$161	-$164	-$175	
Unlevered Free Cash Flow		**$6,801**	**$7,545**	**$8,505**	**$9,539**	**$10,682**	**$157,173**
Debt paydown		$1,561	$2,000	$2,271	$2,600	$3,000	
Share repurchases		$2,620	$2,773	$3,117	$3,470	$3,841	
Share price assumed for repurchase		$137	$150	$165	$182	$200	
Shares retired		19,167,064	18,439,272	18,843,501	19,069,402	19,190,559	

EV	$129,549
Debt	$29,255
Market Cap	$100,294
Shares oustanding - old	543,593,000
Shares oustanding - new	448,883,201
Assumed share price	$223
Current Fiserv share price	$135
Upside	66%

Bear case model:

Revenues	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**Terminal**
Merchant	$9,672	$10,683	$11,523	$12,134	$12,451	$12,451	
Financial	$9,491	$10,155	$10,460	$10,774	$11,097	$11,430	
Corporate and other	$1,348	$1,466	$1,546	$1,611	$1,656	$1,680	
Total revenue growth		*9%*	*5%*	*4%*	*3%*	*1%*	
Operating margins							
Merchant	37.0%	34.6%	33.9%	33.1%	32.4%	31.6%	
Financial	47.3%	47.3%	46.8%	46.3%	45.8%	45.3%	
Operating Income							
Merchant	$3,576	$3,696	$3,900	$4,016	$4,028	$3,935	
Financial	$4,492	$4,806	$4,898	$4,991	$5,085	$5,181	
Corporate and other	-$2,167	-$2,254	-$2,344	-$2,438	-$2,535	-$2,636	
Total (EBIT)	**$5,901**	**$6,249**	**$6,454**	**$6,570**	**$6,578**	**$6,479**	
NOPAT (20% tax rate)		$4,999	$5,164	$5,256	$5,262	$5,183	
(+) Depreciation & Amortization		$1,737	$1,832	$1,909	$1,963	$1,991	
(+) Amortization of acquisition-related intangible assets		$1,638	$1,638	$1,638	$1,638	$1,638	
(-) Capex		-$1,500	-$1,663	-$1,662	-$1,636	-$1,585	
Working Capital	$1,571	$1,708	$1,802	$1,878	$1,931	$1,958	
(-) Change in Net Working Capital		-$137	-$94	-$76	-$52	-$27	
Unlevered Free Cash Flow		**$6,737**	**$6,877**	**$7,065**	**$7,175**	**$7,200**	**$80,795**
Debt paydown		$1,561	$2,000	$2,271	$2,600	$3,000	
Share repurchases		$2,588	$2,438	$2,397	$2,288	$2,100	
Share price assumed for repurchase		$137	$150	$165	$182	$200	
Shares retired		18,930,936	16,215,854	14,491,794	12,572,550	10,491,340	

EV	$76,654
Debt	$29,255
Market Cap	$47,399
Shares oustanding - old	543,593,000
Shares oustanding - new	470,890,526
Assumed share price	$101
Current Fiserv share price	$135
Upside	-25%