

Twitter Thread by John Street Capital



John Street Capital

@JohnStCapital



0/ We've highlighted FinTech infrastructure co's like BR, FIS, JKHY, MA, V, ICE, NDAQ, etc. as companies w/ a variety of moats that have led to dominant mkt share & outperformance despite being 50+ years old on avg.

\$FISV had their investor day yesterday and laid out the why.

Incumbent Financial Service Infrastructure Providers												
Name	Ticker	Year Founded	Price	Market Cap (\$mn)	Revenue		EBITDA		Net Income		Performance	
					2020E	2021E	2020E	2021E	2020E	2021E	3 Year %	5 Year %
Asset Management												
Broadridge	BR	1962	\$149.19	\$17,270	\$4,360	\$4,745	\$913	\$993	\$482	\$640	73.7%	185.9%
SS&C	SSNC	1986	\$65.84	\$16,672	\$4,630	\$4,770	\$1,690	\$1,880	\$439	\$465	65.4%	90.7%
Banking / Payments												
Finastra	-	1970	-	-	\$2,295	\$2,364	\$981	\$1,080	\$55	\$63	-	-
FIS	FIS	1968	\$143.14	\$86,720	\$12,520	\$13,640	\$5,350	\$6,230	\$298	\$364	61.7%	127.0%
Fiserv	FISV	1984	\$111.19	\$74,570	\$15,040	\$16,020	\$5,620	\$6,280	\$893	\$1,072	72.8%	132.1%
Global Payments	GP	1969	\$198.24	\$59,500	\$6,760	\$7,580	\$3,030	\$3,590	\$431	\$538	96.4%	185.7%
Jack Henry	JKHY	1976	\$164.33	\$12,540	\$1,550	\$1,790	\$425	\$572	\$272	\$288	49.5%	123.8%
Mastercard	MA	1966	\$347.57	\$346,470	\$16,880	\$18,690	\$10,190	\$11,350	\$8,120	\$9,744	138.0%	254.1%
Visa	V	1951	\$215.65	\$447,920	\$22,980	\$24,210	\$15,740	\$16,760	\$12,080	\$14,013	95.8%	183.7%
Custodians												
Bank of New York Mellon	BK	1784	\$39.09	\$34,660	\$16,490	\$16,902	\$4,824	\$4,894	\$3,656	\$3,701	-17.4%	-0.8%
State Street	STT	1792	\$69.17	\$2,310	\$11,700	\$12,010	\$3,170	\$3,325	\$2,413	\$2,513	-17.2%	6.8%
Clearing / Settlement												
The Depository Trust Company	-	1973	-	-	\$1,892	\$1,949	\$349	\$359	\$318	\$328	-	-
Data												
Bloomberg	-	1981	-	-	\$10,500	\$11,025	\$3,619	\$4,493	\$2,701	\$2,810	-	-
Factset	FDS	1978	\$330.77	\$12,270	\$1,440	\$1,564	\$499	\$625	\$353	\$375	75.0%	102.0%
Thomson Reuters	TRI	1851	\$86.75	\$41,630	\$5,910	\$6,205	\$1,500	\$1,947	\$570	\$939	111.8%	149.4%
Exchanges												
The Chicago Board Option Exchange	CBOE	1973	\$87.49	\$9,710	\$2,500	\$2,775	\$783	\$820	\$375	\$574	-20.0%	35.5%
CME Group	CME	1848	\$163.58	\$58,800	\$4,860	\$5,144	\$3,130	\$3,242	\$2,120	\$2,642	31.1%	106.7%
Intercontinental Exchange	ICE	1792	\$100.56	\$55,150	\$5,200	\$5,805	\$3,180	\$3,443	\$1,930	\$2,470	58.5%	104.5%
Nasdaq	NDAQ	1971	\$133.48	\$21,890	\$4,260	\$4,729	\$1,330	\$1,395	\$774	\$962	94.3%	152.0%
Mortgages												
BlackKnight	BKI	1962	\$87.30	\$13,580	\$1,180	\$1,270	\$578	\$644	\$109	\$125	87.3%	-
	Median Age	51.5 years	Total	\$1,313,662	\$152,947	\$163,186	\$66,900	\$73,922	\$38,387	\$44,626	62.0%	121.2%

*Finastra, DTCC, and Bloomberg are all private companies. We use available reported information coupled with estimates based on comparable co's

**Data is as of 11/9/2020

***S&P 500 3Year total returns 47.19% / 5-year 89.2% vs. NASDAQ 95.63% / 168.9%

1/ \$FISV highlights the fact that they have #1 market share in core accounting processing for \$1-\$50B FI's; they are doing \$1.0B in global e-Commerce revenue, and have more than \$30B available for capital allocation over the next 5 years (read more M&A for FinTech co's)

Highlights

#1 market share and fastest growing core account processing provider for \$1-50B financial institutions

\$1.2 billion
cost synergies actioned by end of 2021

more than \$120 million
issuer revenue signed in 2020

nearly 90%
of new Clover® merchants are new to Fiserv

nearly 3x
more live Zelle® clients than the competition

more than \$30B

available for capital allocation over the next 5 years

more than \$600 million
revenue synergy goal by 2024

global merchant e-commerce revenue

total more than \$1 billion

direct more than \$750 million

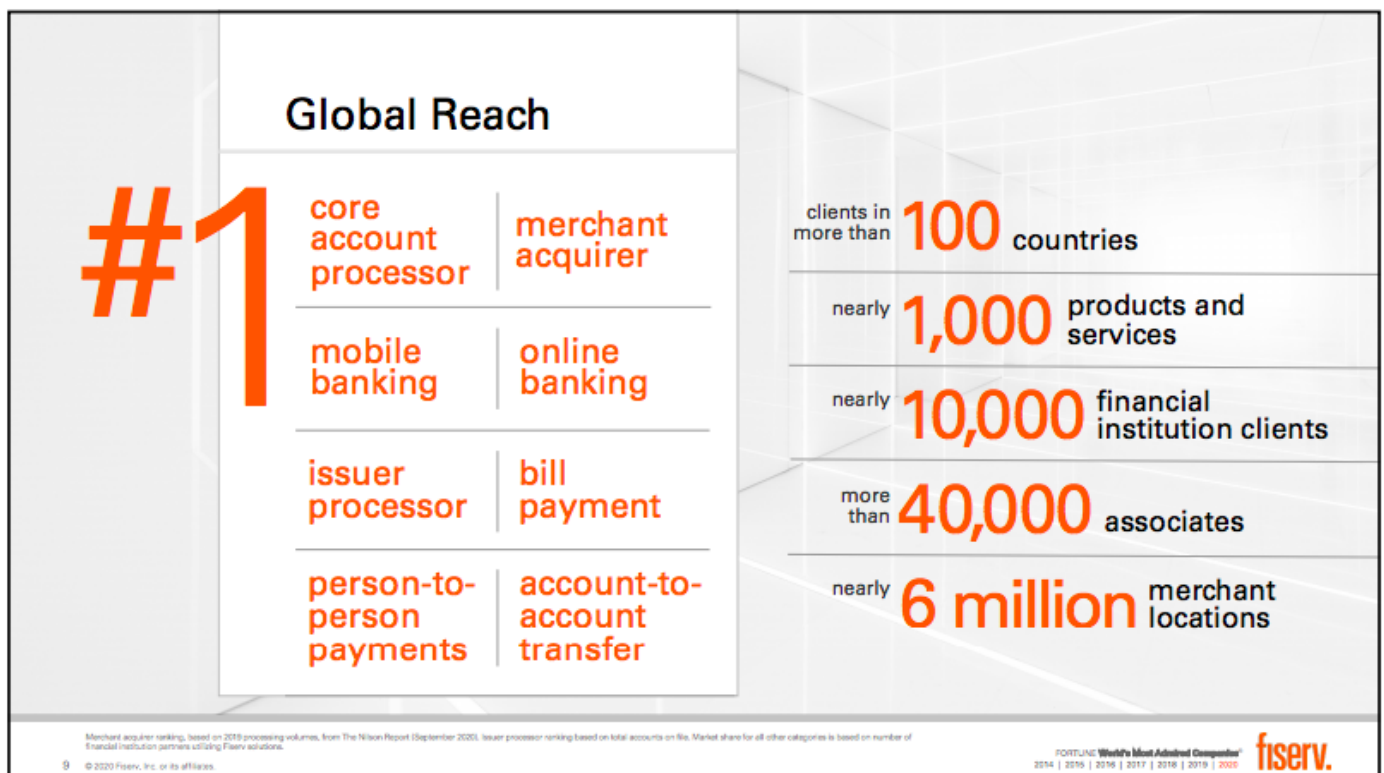
Expected annual issuer revenue reflects full ramp of clients signed in 2020. New Clover merchants percentage reflects new merchant additions to Fiserv for the nine months ended September 2020. Expected live Zelle clients as of the year ended December 2020. Annualized global merchant e-commerce revenue for the quarter ended September 2020.

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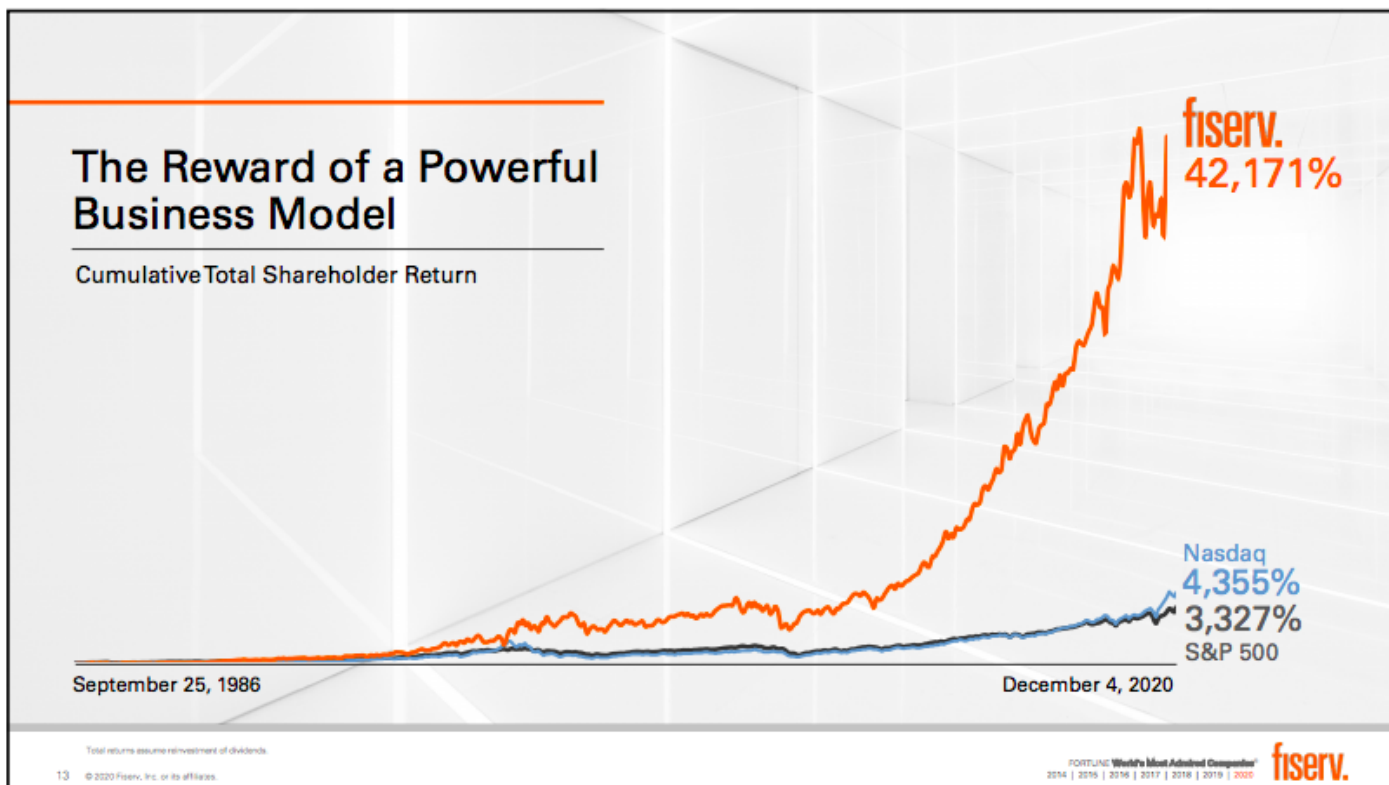
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2/ They have global reach with clients in more than 100 countries, more than 1,000 products & services, 10,000+ FI clients, & 6M merchant locations.

All while being #1 as a core account processor, merchant acquirer, bill pay, P2P payments, etc...



3/ This business model + market positioning has led to incredibly strong outperformance since inception ~35 years ago with cumulative \$FISV shareholder returns of +42,171% vs. the \$SPY at 3,327% & Nasdaq at 4,355%.



4/ \$FISV has grown via a series of acquisitions over the past 30 years most recently the \$22B tie up w/ First Data.

They highlight the progress on the deal & new goals post integration.

M&A is a skill & FISV has it financially; tech integration leaves something to be desired

Value Creation Significantly Ahead of Original Estimates

		January 2019 Announcement	Updated Target	Results to Date
2022	Significant free cash flow generation	More than \$4B annual free cash flow	2022 \$4.4B	\$3.6B
2024	Substantial cost savings	\$900M cost synergies	2022 \$1.2B	\$950M
2024	Enhanced revenue growth potential	More than \$500M revenue synergies	2024 >\$600M	\$190M
2024	Strong adjusted EPS accretion	More than 40% accretive	2024 <input checked="" type="checkbox"/>	~50%
2021	Strong financial position	Reduce debt to adjusted EBITDA ratio to historical level	2021 <input checked="" type="checkbox"/>	3.7x

Free Cash Flow and debt to adjusted EBITDA ratio results to date for the twelve months ended September 2020. Cost and revenue synergies results to date represent synergies achieved as of November 2020. Adjusted EPS accretion in the first full year following close, including the benefit of revenue and cost synergies at full run-rate achievement. See appendix to presentations for information regarding non-GAAP measures.

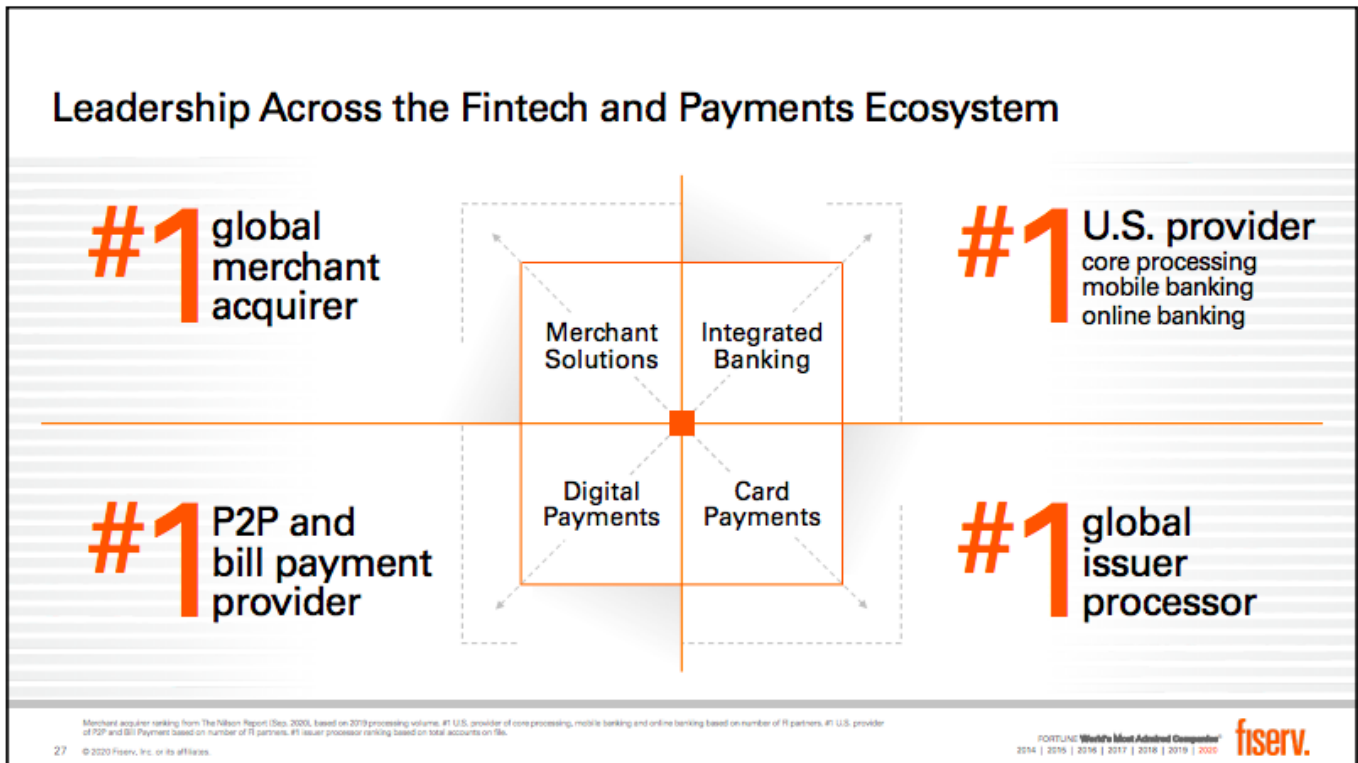
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5/ They highlight 4 key pillars (all of which they claim #1 market share)

- (i) Merchant Solutions
- (ii) Integrated Banking
- (iii) Digital Payments
- (iv) Card Payments



6/ Given the unparalleled size & scale they have unique access to data which should in theory inform new products / use-cases for their end clients.

They conduct more than 12,000 financial tx / second & reach nearly ~100% of US households

Unrivalled Scale and Data Assets Enabling New Experiences

86B

N.A.
transactions

14%

U.S. GDP
processed

7,200

peak transactions
per second

\$3.1T

GPV
processed

more than
13B

ACH
transactions

1.5B

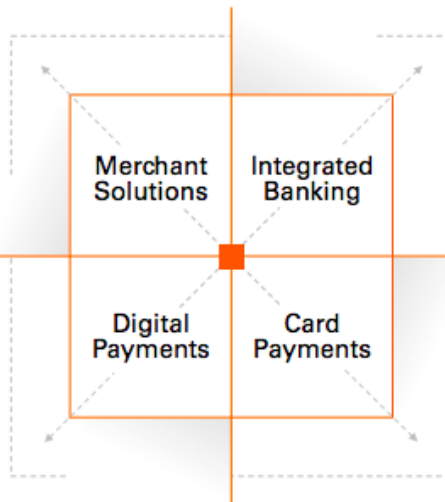
Bill Pay
transactions

410M

DDA accounts

more than
367M

eBills delivered



\$3.7T

wire transfers

more than
3,700

U.S. financial
institution clients

more than
150M

deposit
accounts

nearly
80M

U.S. digital
banking users

1.4B

global accounts
on file

more than
300M

payment cards
personalized

more than
5,000

participating FIs in
Accel[®] and STAR[®]

3.5B

customer
communications
mailed

Merchant Acceptance N.A. transactions represent total authorizations as of 2019 year-end. Based on 2019 U.S. GDP per U.S. Bureau of Economic Analysis. Peak number of transactions authorized per second for the busiest day in 2019 across core processing platforms. Processed volume for the year ended December 2019. Current estimate of full year 2020 wire transfers. FI clients as of June 2020. Deposit accounts as of June 2020. Digital banking users as of September 2020. Digital Payments metrics as of the year ended December 2019. Global accounts on file as of the year ended December 2019. Payment cards personalized as of the year ended December 2019. Combined Accel and STAR FI count for the quarter ended September 2020. Customer communications mailed as of year ended December 2019.

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7/ In 2020 even the leader in FinTech infrastructure boasts about being "nearly all in the cloud" which shows how far the industry has to go.

8/ \$FISV is very much focused on the future of banking / open banking which requires multi-industry distribution of financial services / products enabled by cloud & open APIs

Foundational Innovation to Transform Banking

Real-Time Cores and
Digital Surrounds

Flexible API and Event Streaming Access Layer

Flexible Delivery Models

Real-Time Core
Banking Platforms

Value-Added
Services



Private Cloud

Hybrid-Model
Deployment

Public Cloud

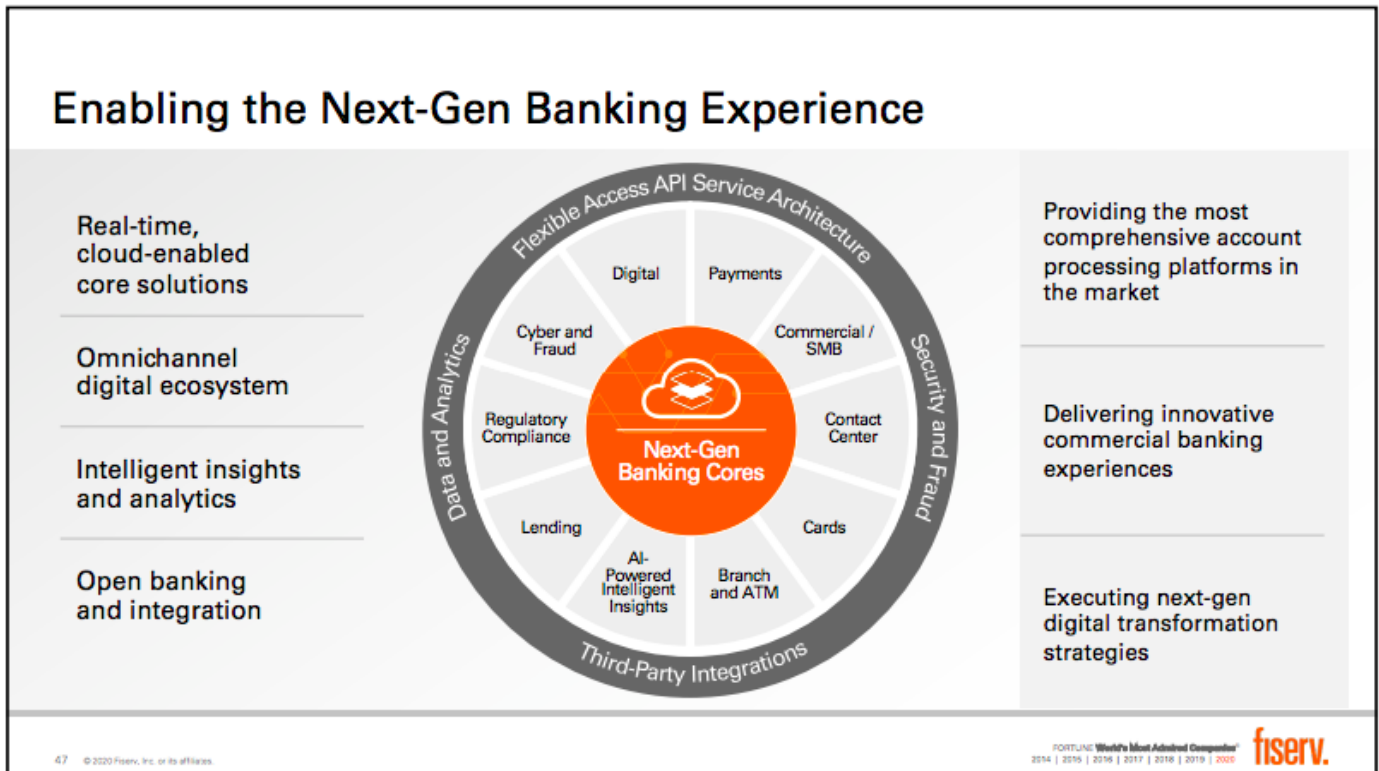
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9/ The Next-Gen Banking core requires:

- (i) Flexible API Service Architecture
- (ii) Security & Fraud Tools
- (iii) Third Party Integrations
- (iv) Data & Analytics

This is a slide I imagine a number of BaaS companies look to emulate in future decks.



10/ \$FISV also provided some healthy market share data.

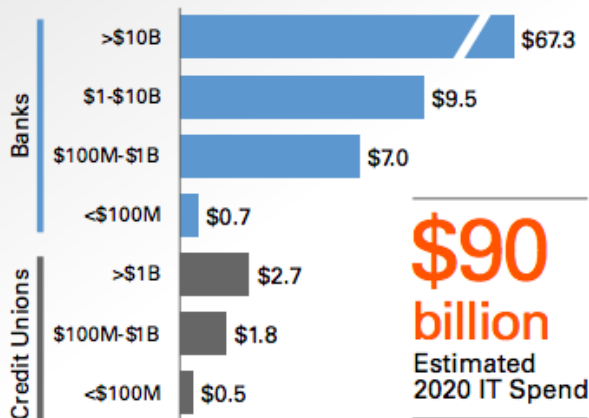
They believe \$90B was spent in '20 by Financial Institution on IT which is projected to grow at a 6.3% CAGR through '24.

For those that believe FinTech B2B infrastructure is saturated thats a portion of the pie

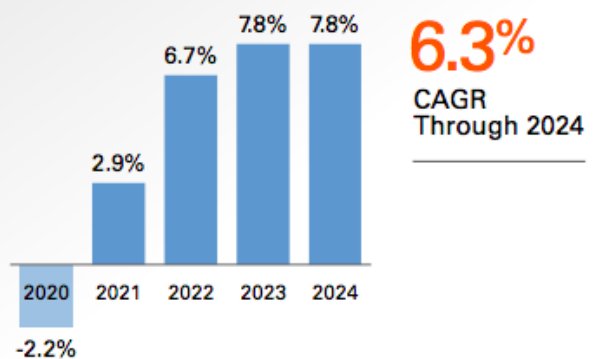
A Healthy and Growing Market

Financial Institution IT Spend by Asset Tier

2020E in billions



Estimated Growth in IT Spend



Source: IDC Financial Insights 2020, North American IT spend. CAGR is from 2021-2024.

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11/ \$FISV has their own land & expand strategy and sees another \$4.7B of opportunity for add-on solutions.

Advantaged Business Model Enables Expansive Opportunity

Total Attainable Opportunity for Surround Content

Existing \$2.3B Opportunity		Recently Introduced \$2.4B Opportunity		\$4.7 billion Opportunity
Branch Automation	Content Management	Account Takeover Monitoring	Advanced Digital Authentication	
Commercial Account Analysis	Core Outsourcing	ATM Management	Biometrics	10% CAGR Add-On Solution Sales
Data and Analytics	Debit and Credit Card Processing	Commercial Treasury Management	Cybersecurity	
Digital Banking	Finance and Accounting Solutions	Digital Engagement Tools	Digital Origination	
Fraud	P2P and Bill Payment	Enterprise Payments	Notifi™	
Statements	Wire Management	Open Banking Tools	Self-Service Kiosks	
		Virtual Assistant	Zelle	

CAGR from 2017 to 2020. Representative list of solutions shown. Opportunity as of October 2020 includes one-time revenue.

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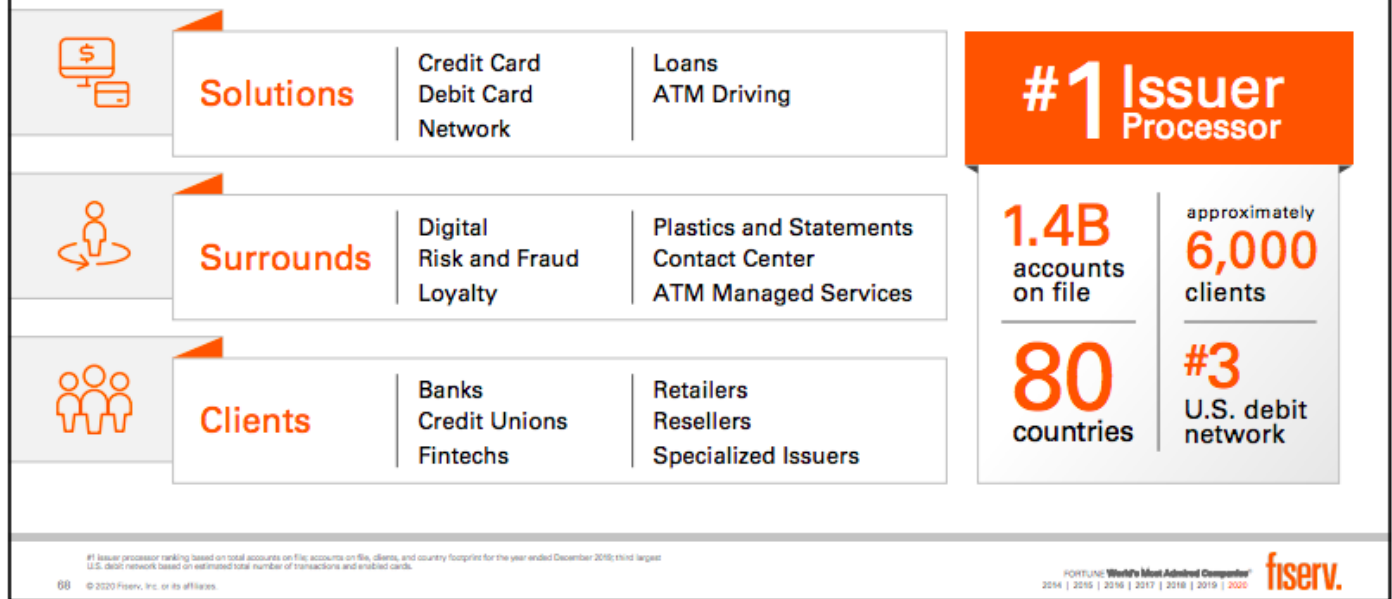
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12/ \$FISV is the #1 issuer processor with unparalleled leadership in card payments. They have 1.4B accounts on file across 6,000 clients, and 80 countries.

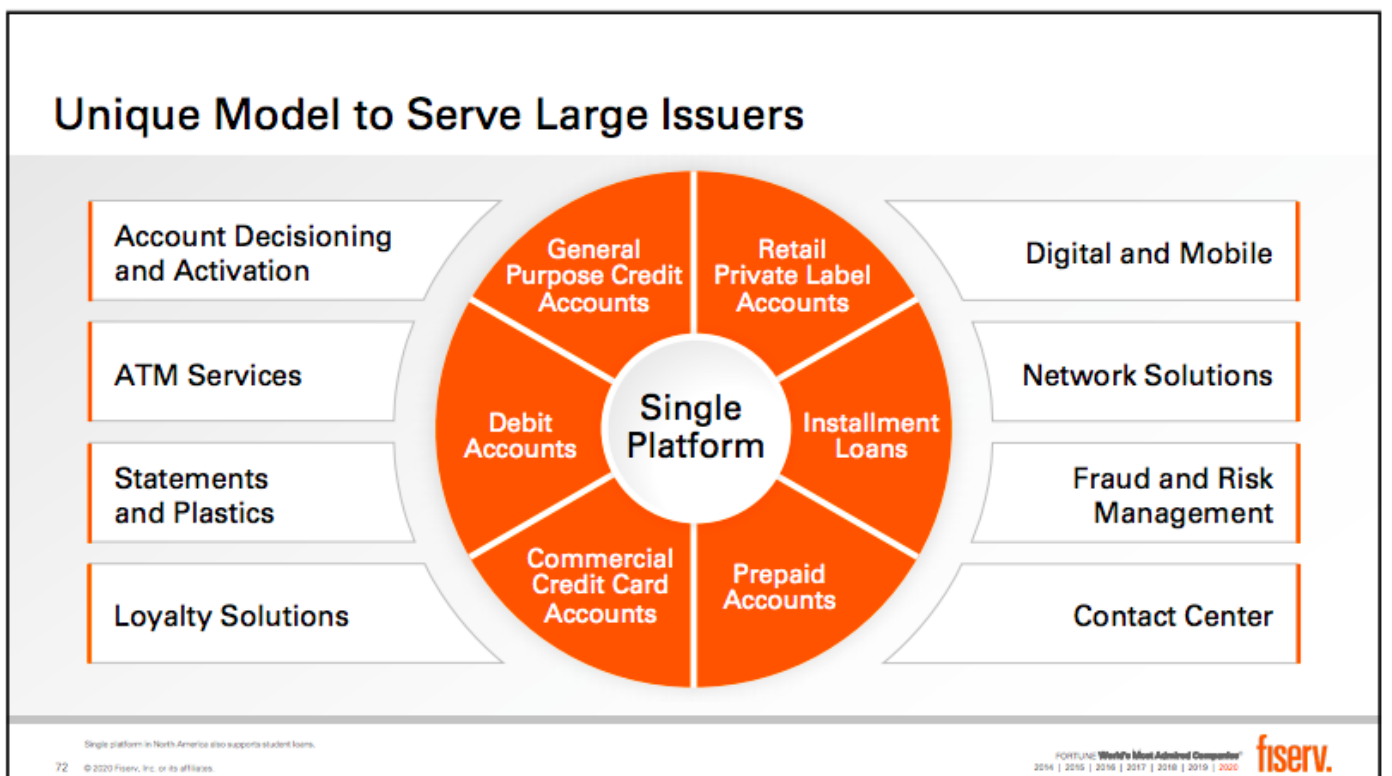
With talks of @Marqeta going public next year this will be an interesting comp for this business line.

Unparalleled Leadership in Card Payments



13/ They highlight their model is for large issuers w/ a single platform that delivers debit, commercial cc, prepaid, installment loans, private label, & general purpose accounts.

This is part of the oppty co's like Marqeta & Galileo saw \$FISV won't entertain the startup.



14/ On the payment side \$FISV highlights the growth in payment revenue, RTP, Bill Payment, P2P transactions, and A2A transfers all as part of a large but ever growing mkt opportunity.

We Operate in a Large and Growing Market

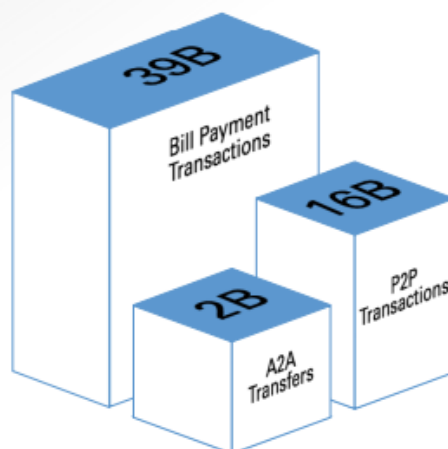
McKinsey
& Company

Over the last decade, payments revenues have grown substantially faster than GDP.



Organic growth in payments is being generated by real-time payments as a result of consumer utility and gig economy demand.

2021F Payment Transactions



Deloitte

The dynamic payments industry continues to expand and evolve, with digital payment vehicles and transaction volumes growing across the globe.

JAVELIN

P2P growth in the U.S. market is on an upward trajectory with fintech providers leading the way.

2021 forecasted US transactions by payment type.

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15/ \$FISV pegs a \$1.0B+ revenue opportunity for digital payments. Their NOW Network currently serves 7 of the top 10 U.S. financial institutions.

16/ \$FISV's growth plans for payments are focused on:

- (i) Omnichannel Capabilities
- (ii) Horizontal Commerce Solutions
- (iii) Leading Technology
- (iv) Payments Innovation
- (v) Local Execution
- (vi) Integration Advantages

Global Strategy to Accelerate Market Performance

Omnichannel Capabilities	Horizontal Commerce Solutions	Leading Technology Platforms	Payments Innovation	Local Execution	Integration Advantages
Integrating physical solutions with global digital capabilities	Delivering innovation in commerce solutions for merchants	Extending market-leading next-gen technology	Creating best-in-class payment outcomes through innovation	Growing the size and shape of our local distribution	Driving value through the power of integration
—1—	—2—	—3—	—4—	—5—	—6—

17/ Besides growth domestically there are significant opportunities ex-US in APAC, LatAm, India, and SE Asia, all areas where \$FISV has a strong market presence & will continue to invest / buy given the growth pot'l.

18/ Like most companies in this market \$FISV talks up their recurring revenue opportunity as subscriptions are eating the world (@pipe)

19/ \$FISV expects to grow top line at 7-9% / year and EPS at 15-20% / year.

Yet it currently trades at ~22.5x EPS and 16.5x EV/EBITDA effectively market multiples.

Preliminary 2021 and Medium-Term Performance Outlook

Key Financial Metrics	Preliminary 2021	Medium-Term Outlook 2022-2023
Internal Revenue Growth	7-12%	7-9%
Adjusted EPS Growth	20-25%	15-20%
Other Financial Metrics		
Adjusted Operating Margin Expansion	>250 bps	>125 bps
Free Cash Flow Conversion	>108%	>105%

Medium-Term Outlook reflects anticipated financial results in each of 2022 and 2023. See appendix to presentations for additional information.