

# Fidelity National Information Services (FIS)

## *A financial tech innovator*

Fidelity National Information Services, known as FIS, is a global provider of software and payments services to commercial and investment banks, asset managers and merchants. The company has a long history of serving financial institutions, and its legacy products include one of the first core processing systems for banks. Even as competition in the financial technology space has increased over the years, a combination of acquisitions and organic innovation has allowed FIS to grow into a share leader in core banking and capital markets technology software. The 2019 acquisition of Worldpay which, to date, is the company's largest transaction, provided FIS with significant scale in the payments business. FIS is organized into three segments: banking, capital markets and merchant payments. We are attracted to FIS's sticky customer base, recurring revenue profile and tailwinds which enhance its long-term growth prospects.

FIS serves small to large global banks with core banking and ancillary software services. These services are used for tracking deposits, loans, and customer activity which form the systems of record for a financial institution. Contracts for processing and banking software typically have terms of 3 to 5 years, thus representing recurring and predictable revenue for FIS. Banks, especially the larger ones which represent the company's target market, are reluctant to replace or even upgrade these systems due to the costs and complexity involved. Many large banks run multiple systems inherited through years of acquisitions and, in many cases, still run home-grown software designed in the '70s that have "green screen" interfaces. This is the consumer equivalent of watching Netflix on a black and white television.

Over the past five years, FIS has invested a significant sum of money to build, from a clean slate, a comprehensive and modern product lineup that is based upon application programming interface (API) and micro-services. These features make deployment easier and faster, enable more frequent upgrades and allow for modular implementations if desired. Competition from newer banking entrants utilizing modern technology (supplied by FIS and others) are now forcing banks to finally modernize their core and related systems to better serve their customers at a lower cost. We believe FIS, which anticipated this trend and invested accordingly, will see accelerating growth in its banking segment over the next several years as banks spend to catch up on their technology debt.

FIS's capital markets business provides software used for running the operations of global investment banks and asset managers. This aspect of FIS's business has benefited from long-term, recurring revenue contracts. FIS invested to create a suite of software as a service (SaaS) products and is on a journey to move its customers from on-premises software licenses (and related maintenance revenue streams) to a subscription model. We have seen similar transitions successfully executed by other software businesses that we follow, and we are confident that a successful transition will stabilize the segment's growth and reinforce the recurring revenue profile of FIS overall.

FIS's payments business services e-commerce providers, traditional merchants, and software vendors with a comprehensive set of tools, software and processes to accept credit cards and, increasingly, other digital forms of payments such as PayPal. While COVID-19 impacted volumes for several of FIS's customer segments, the company saw growth in other areas as its roster of global e-commerce customers benefited from the switch in consumer payments behavior. The company recently introduced a "full-stack" API-enabled e-commerce gateway that makes onboarding for customers easier and cheaper. The technology is omnichannel enabled, which means that brick-and-mortar customers, as well as e-commerce operations, don't have to run multiple card acceptance systems.

FIS is also the leading provider of integrated payments technology to software vendors who are increasingly bundling payment capability directly into their products to differentiate their offerings and increase the lifetime value of their customers. FIS benefits from these arrangements through increased volumes, leverage of its existing sales teams, and longer-term contracts.



**BARTON HOOPER, CFA**  
Director of Equity Research

Barton joined Weitz Investments in 2007. Prior to his investment management experience, Barton worked at George K. Baum & Company and was a certified public accountant at Deloitte & Touche LLC. Barton has a bachelor's in accounting from the University of Missouri and an MBA from Washington University in St. Louis.

Our ownership of Mastercard and Visa and coverage of the payments sector in general have provided us with a view that the transition to digital payments from cash/checks still has a long runway of growth ahead. Scale is becoming increasingly important as customers demand the ability to accept and process multiple payment types whether in person or through e-commerce, domestic or cross-border, and with higher authorization rates so payments are not refused. The technology and reach required to meet these demands are significant which is why merchant processing has experienced consolidation over the past few years and why FIS has benefited as one of the consolidators. We believe FIS will be a prime beneficiary of the shift to digital payments over the long term. Recent news that FIS may be interested in acquiring competitor Global Payments does not surprise us. While the price paid is a key factor, we see many benefits from such a combination, and FIS has a strong track record of exceeding the cost and revenue synergy targets of previous acquisitions, including the Worldpay transaction.

While the buzzword “FinTech” has become ubiquitous and there have been several public offerings of companies who could be viewed as a competitor to FIS in some form, we believe this wave of innovation has expanded the overall market and is healthy for the industry, FIS, and, most importantly, customers. New products and technologies are forcing incumbents into upgrading their systems, which helps FIS, while new entrants in payments often find that they need a partner with scale and global reach.

We believe FIS benefits from an expanding overall market for its technology and the continued transition to digital payments which drives attractive reinvestment opportunities. These characteristics, along with a strong management team that has demonstrated good capital allocation behavior, translates into a Weitz Quality Score of 2 (on a scale from 1 to 7, with 1 being the highest). FIS is positioned to grow while expanding margins. This feeds our estimate of business value in the range of \$170. At current prices, the company is an excellent example of our Quality at a Discount framework in action.

## IMPORTANT DISCLOSURES

**Past performance is not a guarantee of future results.** All investments involve risks, including possible loss of principal.

As of 12/31/2020, each of the following portfolio companies constituted a portion of the net assets of Balanced Fund, Hickory Fund, Partners III Opportunity Fund, Partners Value Fund, and Value Fund as follows: Fidelity National Information Services, Inc. (FIS) 1.4%, 0.0%, 2.2%, 0.0%, and 3.3%. Global Payments (GPN) 0.0%, 0.0%, 0.0%, 0.0%, and 0.0%. Mastercard, Inc. – Class A (MA) 1.7%, 0.0%, 4.9%, 3.7%, and 4.1%. PayPal Holdings, Inc. (PYPL) 0.0%, 0.0%, 0.0%, 0.0%, and 0.0%. Visa, Inc. – Class A (V) 1.7%, 0.0%, 5.1%, 4.2%, and 4.3%.

Holdings are subject to change and may not be representative of the Fund's current or future investments.

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**Investors should consider carefully the investment objectives, risks, and charges and expenses of a fund before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at [weitzinvestments.com](http://weitzinvestments.com) or from a financial advisor. Please read the prospectus carefully before investing.**

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