09-Mar-2022

Fidelity National Information Services, Inc. (FIS)

Wolfe Research Fintech Forum
Darrin Peller  
**Analyst, Wolfe Research LLC**

...Day 2 of the Wolfe Fintech Forum. We're really happy to have great day planned ahead of us with a number of both fireside chats and panels. As you see, we have the executives from FIS onscreen with us. But we also have Chris Senyek, the Head Strategist for Wolfe who has been with us for years and he really is the top ranked macro guy on the Street, so really proud to have him.

Chris, if you don't mind just jumping in and kicking off the day with a few minutes on your thoughts overall in the market and then we're going to turn it over to FIS right after that.

**Chris Senyek**  
**Analyst, Wolfe Research LLC**

Yeah. Thanks, Darrin; and thanks, everyone, for joining us for Day 2 of Wolfe's FinTech Conference. Having been at Wolfe for over 10 years and see how the firm has grown and taking share from our competitors, just very humbling to see such a fantastic turnout with some in-person meetings and it's clear that Darrin is the axe in space along with Steven Chubak.

Now, onto the markets, clearly, we're in the midst of an important regime change that started even before the Russian-Ukraine conflict. The days of easy money and physical stimulus are in the rearview mirror. And as we look ahead, we see an increasingly bifurcated market outlook what I've termed R and R, resolution or recession.
Despite this, investors actually seem somewhat sanguine about the markets over the next month. Yesterday, during a webcast that I hosted with Wolfe's top consumer analyst, Greg Badishkanian asks and quote investors when they thought markets would bottom over the Russian-Ukraine conflict. And consensus was for one month from here at 31%, followed by in two weeks at 25%. So, despite the headlines, markets always price at the rate of change. Investors are hopeful that we see some de-escalation though not a perfect resolution over the near term.

Next week, the Fed is expected to meet and hike interest rates and begin their tightening cycle with a 25 basis point increase and the market is actually expecting six rate hikes this year. If we look at Fed funds futures, so the Fed funds rate would be at 1.5% as we exit the year. We've argued for many, many months now, how massively behind the curve Fed has been in raising interest rates. We've argued that it actually might help the economy a little bit and help the savings function in it.

And now in times of rising risk aversion due to exogenous factors which are forecastable by us or the Fed, there are many ways painted into a corner. They need to hike interest rates in the face of rising risk aversion and you can't go into a scenario like we had back in 1998 when you had a different crisis where they cut interest rates 3 times in the midst of a rising interest rate environment.

And to be sure many of the inflationary pressures we're seeing are supply driven, and that's something the Fed can control, whether its oils, autos, housing, semis or other things. At the same time, it's a very odd period of time not to state the obvious. Even apart from the Russian-Ukraine conflict. The economy feels like it's fully reopening after two years off and on. At the same time consumers are feeling enormous pressure from higher prices, particularly at the low end.

Now, based on the call we did with Greg Badishkanian yesterday, based on his checks where he talked to over 50 companies last week they hadn't seen it and the consumer just yet, whether they're talking to Walmart or other companies. But the longer commodity prices stay elevated, the more downside risks there are to the US growth and consumers pull back on spending.

Onto the markets, our work suggests despite the carnage we've seen, US stocks aren't completely washed out just yet. Europe is and we showed that in our Chart of the Day today. What I'm closely watching is the percentage of stocks above their 200-day moving average as an important indicator of an intermediate term bottom that indicator's right around 30%, now I'd like to see it get below 20%.

We do think inflation is likely to peak over the next month or two if oil prices behave themselves from here. And if that occurs, I don't think we'll have recession next year. If the situation continues to persist, I think we have to start thinking about a recession in 2023.

What am I going to watch for that? The key metric that I'm watching that the market price is in which is priced in most of the last recessions, is the 10-2 Treasury spread curve. That right now is hovering around between 20 and 24 basis points. It has been dropping like a rock. If that inverts, which it could sometime over the summer or fall, big if, then I have to – then I think we have to start planning and positioning portfolios for a recession 12 to 15 months down the road.

Inverted back in 2019 and we looked around and asked ourselves, what the heck is going on. But we couldn't see it until something hit [ph] that (00:03:32). And then finally, as we think about this regime, the way – if the Russian-Ukraine conflict deescalates over the coming months, we think you're going to revert back to the period of time where you have higher interest rates, worried about inflation, worried about Fed tightening. That favors value. Our
favorite way to play that are regional banks and value fintech names, in particular within the space that we're talking about today.

Growth stocks are likely to see continued headwinds in the first half. And the second half of the year, if we kind of go into this stagflationary environment and growth slows down, long-term interest rates stable out as inflation starts to come down, I think there could be a bid for secular growth stocks as we look out. In fact, over the long run I think companies that have pricing power that can do well and grow in a slow growth yet somewhat higher inflationary environment, are going to do quite well. The stocks just need to de-rate a bit more in our view, but while we get there.

And with that said, enjoy the conference. If you want to be added to our distribution list, email me, chris@wolferesearch.com. And now, I'll turn it back to Darrin. Thanks, Darrin.

Darrin Peller
Analyst, Wolfe Research LLC

Chris, that was great; and thank you very much, guys. All right. So with that, why don't we start or kick it off with our first presentation of the day and our fireside chat with FIS' senior management. Gary and Woody, thank you both for joining us today. I really appreciate you being with us. I know it's been many years in a row you've joined, so it's really appreciated.

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Darrin, great to see you today.

James W. Woodall
Chief Financial Officer, Fidelity National Information Services, Inc.

Likewise, Darrin.
QUESTION AND ANSWER SECTION

Darrin Peller  
**Analyst, Wolfe Research LLC**

Listen, I think we're going to get into the recent trends in a minute, but I think to just kick it off for a minute, where — with where your stock trading, what you think is the perceptions that investors may be missing? Because I know you're certainly interested in buying your own stock back at — for the year and deleveraging. But overall, just give us a view on what you think is really the story on FIS right now that you're most excited about versus what’s being priced in.

Gary A. Norcross  
**Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.**

Well, look, I think it's great question, Darrin. I mean, first and foremost, I think the strength of the business model is underappreciated. And I think the stock has suffered from just a bear care narrative about share loss. We have several premier assets across our businesses and they're performing exceptionally well.

Our banking, capital markets businesses, our premier assets within their space, you're seeing a lot of growth and acceleration in those two segments, all focused on what I would consider large regionals and Tier 1 institutions. In merchant, we also have the premier enterprise and eCommerce assets and capabilities, and you're seeing a lot of growth there. Our merchant business has accelerated to a low-double digit grower, and eCommerce continues to be a bigger and bigger share of wallet for us even in the merchant space.

But we do see, in our US SMB channel, we're facing some challenges. We're kind of growing in line with TAM. We've got some opportunities there. We made a small acquisition in Q4 to kind of help push eCommerce down into the SMB market. But just like when we bought SunGard and we did a turnaround there, we'll get the SMB business growing where it needs to be going forward.

But we feel great about the operating performance of the businesses. I just think the narrative around share loss is way overdone. I mean, if you look at our margins across each of the three segments, if you look at our growth rates, you look at our free cash flow, I think that just translates to us that we're very focused on de-leveraging and getting back in the market and buying our shares back. So, we feel great about this.

Darrin Peller  
**Analyst, Wolfe Research LLC**

Yeah. So probably an under appreciation of the sustainability of what you've told people, right?

Gary A. Norcross  
**Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.**

Exactly.

Darrin Peller  
**Analyst, Wolfe Research LLC**

All right. Listen, before we get into too much more on the longer term, I think we have to just address the war in Ukraine and the geopolitical concerns going on globally right now. When you think about it — I think the audience
Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Look, our thoughts and supports are with Ukrainian people. We hate to see what's going on there. Just really the war in Ukraine has really impacted a lot of our colleagues in Eastern Europe. While we have minimal business operations in Ukraine and Russia, in fact we don't have any colleagues there to speak of, we are very focused on supporting our Eastern European colleagues. We're raising a lot of money in relief for Ukraine and we're matching that. We're also very focused on cyber.

As you can imagine, Darrin, we're certainly on high alert on any kind of cyber issue that might be going on due to the war. Obviously, we've got to comply with all sanctions imposed on the Russian entities and persons, and so we're doing that as well. On a company level, though, we have very little exposure, relatively speaking. We have almost no exposure in the banking and capital markets business. And then frankly, in merchant, we've identified maybe up to 1 point of revenue headwind which could have exposure to the conflict, but it's really just multinational eCommerce merchants.

And so, we're watching that very closely [indiscernible] (00:09:00) on anything in the merchant business and the other segments. We don't really have any business impact to speak of.

Darrin Peller  
Analyst, Wolfe Research LLC

All right. That's helpful, Gary. Thanks. Maybe we take it a step back now then and we look at 2021, you were clearly able to execute with total organic growth. I think it was 10% to 11%, in line with your guidance when all is said and done, despite obviously quite a few of headwinds, whether it's different variants from COVID or other mix issues.

If you could look back on the year and tell us what you think what positively surprised you about the year, whether it's the industry and how that was trending or it specific to FIS? Or for that matter, negatively surprised you through the year before we go into 2022 and looking forward? I think that'd be helpful.

Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Well, let's look at the positives first. I mean, you really had the top operating performance year in our 53-year history. We had record revenue growth and margin expansion and new sales performance even despite the pandemic. In merchant, our enterprise and eCommerce sales were particularly strong. And we saw that throughout the year. In banking and capital markets, we continued to consistently grow the business. Our backlog increased 8% which is a great indicator of the future success of those businesses.

We signed some really landmark deals in banking and capital markets with T. Rowe Price and Franklin Templeton. So, we feel great about that. We also look at the Worldpay integration. We really successfully completed the Worldpay integration. We blew out any of our operating synergies going into that, whether it was on expense take out or revenue. Revenue exceeded well over $700 million of cross-sales. We ended up getting over $900 million of cost takeout. So, we feel great about that integration and how that went.
When we look, obviously, the negatives were this global pandemic lasted a lot longer than we thought. We're dealing with a 100-year pandemic we were negatively surprised by the impact of new variants. Coming out of the Q3 call, we got the question, do we see Omicron impacting us at the time in November? We didn't. And then we saw the UK shutdown in early December and you saw the results in our merchant business.

So, those were negatives that we had to deal with throughout this – as I said, this 100-year health crisis. We've got exposure in travel and air exposures that really got hit disproportionately due to it. But we also really are proud of some of the things that we accomplished through capital allocation. We accelerated our dividend growth rate to over we guided to more than 20% – or 20%, we did 21%. We also purchased a lot more shares last year than we said we were going to purchase with over $2 billion in share repurchases.

So, the strength of the model is really solid. We have a lot of positives that we look back on 2021, but the global pandemic certainly lasted much longer and had much more impact to us than we expected.

Darrin Peller
Analyst, Wolfe Research LLC

Right. And when we look forward, Gary, I mean as CEO, you obviously have a lot of areas you can invest your time and money. And so, if you can give us a sense on your priorities of where you're spending time investing in 2022 and beyond. I know you mentioned obviously breaking further into the SMB from a merchant acquiring standpoint is one example. But what else can you tell us about where you're spending most of your money and time this year?

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Well, look, I think a couple of things. I think we're – I think you're going to start seeing our capital investment actually trimmed down internally into our solutions because a lot of our large programs we're getting behind – we successfully closed the data center consolidation program that we talked about where now we've got 83% of our compute in the cloud.

So, those are really landmark programs. So, you'll start seeing investment trend down. You're also seeing us we've invested heavily in application transformation, what people talk about is legacy solutions and we've invested heavily in migrating our legacy capabilities to the future. And you're seeing that start to come to fruition in banking and capital markets.

We've talked a lot about modern banking platform over the years. We've talked a lot about Digital One, PaymentsOne, Code Connect, a lot of the things we're doing in wealth around Unity. Those are the large programs that will continue throughout 2022, but they are starting to ramp up and started seeing many of those starting to wind down in the back half of 2022 and into 2023.

And you're seeing our strength in sales success so we think our internal investments has been very strong. We knew the company was going to have to go through this massive transformation on merchant. We successfully completed the migration last year. Access Worldpay has been in market now. We have over 1 billion transactions that are processed through that since launch. We've seen a lot of new customers signing up for that.

We are going to push down in the merchant and continue to invest internally and with some small tuck-in, with a lot – for example, Payrix, where we did a small [indiscernible] (00:14:10) where we can help build out that SMB vertical a little stronger. As I said, feel great about our enterprise capabilities and our eCommerce, but we got we do have an opportunity there in SMB that we'll be focused on. But all in all, I think you'll start seeing capital
investment go down. That's going to actually increase free cash flow even more, allow us to return more cash to shareholders throughout 2022 and 2023. So, we feel really good about where we are from an investment standpoint.

**Darrin Peller**  
Analyst, Wolfe Research LLC

Okay, that's helpful. Let me switch to guidance since you just gave it pretty recently for 2022 calling for 7% to 9% your organic revenue growth and $7.25 to $7.37 or 11% to 13% EPS growth. It obviously includes lapping of tough comps from the pandemic. But what went into your assumptions when creating the 2022 outlook? Maybe, Woody, you can chime in on this as well.

**James W. Woodall**  
Chief Financial Officer, Fidelity National Information Services, Inc.

Yeah.

**Darrin Peller**  
Analyst, Wolfe Research LLC

Where do you see sources of upside either from outperformance or recovery versus what's in the guide as well, Woody?

**James W. Woodall**  
Chief Financial Officer, Fidelity National Information Services, Inc.

I'll come and grab this one, Gary.

**Gary A. Norcross**  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah, that'd be great.

**James W. Woodall**  
Chief Financial Officer, Fidelity National Information Services, Inc.

We've built our plan in a very bottoms-up approach, brick-by-brick as we always have trying to lay out what we anticipate in terms of pandemic recovery, sales execution, delivery and conversion execution and built that as sort of the high-end of our range, aligned basically to [indiscernible] (00:15:35) Then we put together some downside scenarios, right? What do we see if we miss on execution? What do we see if we have some sales challenge? What do we see if we have another variant come in as an example and build some downside scenarios and that became sort of the low end of the range.

If you think about things that could help us outperform, I think it will be around bank spending and consumer spending and pandemic recovery in excess of what we've got planned right now. If you look at the downside, right, it could be another variant that's out there, it could be rolling into a broader recession that we have not planned in our guidance, if you will, or this geopolitical spillover into something beyond what it is today.

But we feel very good about the guidance. The model is resilient. I think as you heard Gary talking about some of our capital investment coming down we've guided to about 95% free cash flow conversion of earnings. I could see that being another area we could outperform this year. We're very focused on free cash flow, given the market dislocation and the valuations today.
And then to the extent we do see challenges, as you know and you've seen in prior times, we've got other levers that we can pull to predict earnings and predict earnings per share. So, feel very good about overall what we guided to and being able to execute or beat that guidance in the current year.

Darrin Peller  
Analyst, Wolfe Research LLC

Okay. We had Visa and MasterCard CEOs with us yesterday and Global Payments and others talking about how there has been a very strong bounce back after Omicron on the merchant in the US at least. They're seeing the consumer really pick up steam, but obviously now we have the geopolitical noise and concerns in Europe that might offset a bit.

Regardless when you think about the cadence of your guide on a segment basis, I know you touched on this a little bit on earnings, but if you could revisit that again for us and just remind us on how we should anticipate that you're progressing across your segments.

James W. Woodall  
Chief Financial Officer, Fidelity National Information Services, Inc.

Yeah. First and foremost, I think we agree as well. We saw sequential improvement in February, particularly in the US and the UK which was a challenge for us in the fourth quarter. So, I feel good about the bounce back that we're seeing as Omicron recedes and cases decline. I think the commentary that you've seen by the networks and the other competitors is very in line with what we're seeing through February so far. So, a good start to the year.

If you look at the three segments we anticipate in merchant growth to be double digit, I would tell you, from a cadence perspective we anticipate every quarter in the year to be double digits. If you look at the higher versus lower, we anticipate Q1 and Q4 to be a little higher, but all quarters being in the double digit zone and that's just based on either comps or our expectations of recovery.

Darrin Peller  
Analyst, Wolfe Research LLC

Makes sense.

James W. Woodall  
Chief Financial Officer, Fidelity National Information Services, Inc.

If you move into banking, we talked about banking being 6% plus over the course of 2022. We've got a couple of points of headwind in terms of stimulus and term fees. Most of those are going to be in the second quarter; that's probably our most difficult comp in banking. The balance of the year should be generally in line with our guide.

And then capital markets, we guided mid- to high-single digits. There's some license work, renewals in there. So we actually anticipate Q2 and Q4 to be a little lower, and Q1 and Q3 to be solid and in line, if not a little higher than in line. So there's a little bit of movement across the segments, but overall feel very good about the shape of the year and what we've got lined up there.

Darrin Peller  
Analyst, Wolfe Research LLC
Okay. And then thinking about the long-term growth, the sustainability into the model now. I mean, Gary, I know we touched on how sustainable what we're seeing in cap markets and banking can be. But can you just revisit that for a minute for us in terms of what you really think those segments can grow? Maybe then we can talk on merchant also in terms of what your vision is for that medium-term growth rate?

Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah. Look, I mean you're talking about a highly resilient business here. I mean, our banking and capital markets businesses are all very long-term contracts. They're all exclusive in nature in our deployment models. We all get escalators based on their growth. We also get COLA escalators based on cost of living adjustments. So, it's just a really strong business.

I mean, when you look at our guides on those, it's really based on historical sales. I mean, our long-term -- our sales in that engagement taken about an average of 12 months and I've said this repeatedly it takes about 12 months to onboard. So, really where Woody went earlier was really implementation risk. Can we meet the demand? Do we have the right staffing that we can actually deliver against that? And we've proven over the last 53 years the answer to that question is, yes. So, it's a very easy business to model.

There is some, about 10% of that revenue that does come in year. So, you're looking at about a 90% reoccurring roughly when you cross all those businesses between even reoccurring [ph] fee assets (00:20:41) et cetera. So, there could be some macroeconomic event that could really pull that down a little bit, but it's a little bit. As I said, in the worst recession in the history, those businesses were flat and expanded margins 250 basis points. So, we don't see anything like that.

So, we feel very confident in banking and capital markets. It's highly predictable. Frankly, our merchant business is the same way. The challenge is, a lot of people want to go back and say, well, you're not right on top of the networks. Well, the challenge when you get into that is, we're not in everywhere the networks are in. So, look at Russia, look at China. We really have very little exposure to those two countries, right. So, our volumes are always going to be different.

The reality is, is the curve similar? Is the trajectory similar? And are we seeing recovery of volume in the sectors that we participate in, in a commensurate way with the recovery of the pandemic? And the answer has been yes all throughout last year. And so, we feel really good about our enterprise and eCommerce business.

This year eCommerce will cross and it'll be the largest sub-segment within merchant. So when you have the largest sub-segment in merchant that's going to be growing greater than 20%, naturally we have a high confidence in our double-digit – in the forecast that Woody just stepped through with the merchant business and that's just the strength of that book of business.

Now, we keep coming back and wanting to paint SMB as some really significant issue. At the end of the day, it's a small piece of the overall merchant portfolio and even that is going to be growing upper single digit. So, but we feel great about all three of the positioning. We feel great about our retention rates within our markets, our sales success. And so, we think once again this year will be a really good performance year for FIS operationally. And so, we will continue to execute on that.
Okay. So, to be clear, I mean, the banking side of the business has, in your view, more sustainably accelerated now right so...

Gary A. Norcross  
*Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.*

Yeah.

Darrin Peller  
*Analyst, Wolfe Research LLC*

...high single – mid- to high-single-digit range, at least?

Gary A. Norcross  
*Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.*

Well, and it's just simply because of – look at what's going on in the backlog. When the backlog grows 8%, I mean, you're going to grow directionally in that arena. And that is all sales momentum that's going in there.

Are there going to be some lumpiness? I mean PPP, the Payroll Protection Program was a tailwind last year. Great. And so, you actually see that even in our financial institutions, that was a big tailwind for them. And so, now, as they get rising rates, they're going to have, their NIM is going to expand, they're going to get – they're going to do very well as well, and then they're going to spend more dollars in programs. So, and you're also talking about contracts that are on average five years in duration.

Darrin Peller  
*Analyst, Wolfe Research LLC*

Yeah.

Gary A. Norcross  
*Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.*

So, it's just really sticky. It didn't really matter what's going on even in the macro world, those programs are going to be launched and those programs and that revenue is going to flow into FIS and the capital markets business is very similar.

Darrin Peller  
*Analyst, Wolfe Research LLC*

Yeah, yeah. It looks like both those segments, the most debated, as you alluded to, has really been the merchant side, even though it's a 30-year business effectively. And even within that is a relatively small piece that's probably the most controversial, which is that SMB side.

But let me just start off by asking, I mean, if we were seeing what we would expect to see in reopening as the year progresses, I mean would you expect your volume to perform in line? I know you don't like comparing the networks necessarily, but if things were in a normal environment, should that be the case?
Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah. Yeah, so but I do expect a direct correlation to the lines. I mean, we're not seeing anything different in our book, right. I mean, my point would be if you dig in on their travel and airlines and how our book aligns on the travel and airlines, we’d be right on top of it from a margin standpoint.

Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

I mean so it just all depends on the sectors you’re in and the countries you’re in. And so, but absolutely, I do expect those trend lines to be very much in the same direction.

Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

No, we feel great about it. We got it launched. I mean, it has been – we’ve talked about this a lot. I mean, it’s already the fourth largest gateway in the industry. We've already cleared more than, I think it's close to 1.4 billion transactions; a minute ago I said greater than one. But a lot of volume is already flowing through Access Worldpay. Our new eCom customers are going on.

What we've got to do is now, over time, start migrating our back book into Access Worldpay, but that's a cost play for us. That's the ability for us to reduce cost. And so, we don't have to maintain those historical gateways but all of our new eCom volume is flowing through that. And all of our new customers that we’re signing we had a tremendous quarter in Q4. I think we signed 13, 15 new global enterprise eCom clients that are all going through that. So, it's really a much more simple deployment, simple integrations, many instances single API, depending on the services that people are consuming through it.

So, we really feel great about our positioning with our Global eCom business. We feel great about how our Access Worldpay is performing and we're seeing that in our sales success.
Darrin Peller  
*Analyst, Wolfe Research LLC*

And Payrix clearly was an acquisition targeting smaller SMBs, both eCom and [ph] NAV. (00:27:00) But can you give us a sense real quickly once again as to what you think that’s going to do to add value?

Gary A. Norcross  
*Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.*

Yeah, I mean, look, when you look at where our capabilities are and I know people appreciate this, but I'll just state the obvious. I'll even go back to our banking and capital markets business, look at our banking business. A lot of our capabilities are for the largest institutions in the world. So pushing that down to a small community bank is not possible, right? And we'll have to have a totally different capability to actually compete in the community bank market.

So, if you think about Payrix, it's very similar. If you look at the SMB, automated underwriting, automated onboarding, ability to push down our Global eCom capabilities, but in a simplified way to [indiscernible] (00:27:43) SMB to take advantage of it, that was the reason for that acquisition.

You've also got the ability to gain more wallet share down in the SMB market, but that Payrix has done a really nice job of packaging things into their capabilities that allow those SMBs to self-serve, KYC, AML, those kind of things and it allow – but they take advantage of our enterprise capabilities on the back-end.

So, it's a really nice little acquisition for us and allows us to push down market with our eCom capabilities. It allows us to actually get more revenue per SMB because of the way they package. It gives us an access point. They even start feeding our embedded finance capabilities into it and it's just all about ways to package and an easier way that allow people to self-serve and that's really what Payrix brings to the table.

It then bring back-end systems, it then bring all the really big systems that we deliver to the enterprise, it just packages it in a way and consumes that in a more simplified self-service fashion.

Darrin Peller  
*Analyst, Wolfe Research LLC*

Makes sense. Are there acquisitions we should expect for the merchant business or you think we have what we need right now?

Gary A. Norcross  
*Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.*

I think we're in a really good shape. I think we really feel good about our plan. I think we really feel good about how our businesses are operating. Woody and I talk about this all the time. I've got to be honest. Right now the acquisition we're going to do is the acquisition of FIS. So, I mean we're going to start returning and continue to return a lot of cash to shareholders. We think the share price is just absolutely unprecedented and we're going to be a heavy buyer.

We needed to reload our balance sheet. We're committed to doing that 18 months after the Worldpay acquisition, this little thing called COVID-19 got in the way of that and we invested through this cycle and actually bought a lot of shares during that time, as we felt the share price was dislocated when it was [ph] $1.20 (00:29:50).
So, I mean, at this pricing, I mean you're talking about a totally de-risked return to buy or sell. So, you're not going to see any M&A out of that...

[indiscernible] (00:30:06)

Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

...2023.

Darrin Peller  
Analyst, Wolfe Research LLC

Okay. That's really helpful to me. I mean, while we're on that topic - I guess, while we're on that topic, maybe we should just jump into capital allocation. I mean, because obviously last quarter you said you're going to dedicate a little more to deleveraging right now, obviously coming out of Payrix. And Gary, you're saying we're not going to see more deals most likely this year, much more focus on your own stock. But Woody, would you explain on that?

James W. Woodall  
Chief Financial Officer, Fidelity National Information Services, Inc.

Yeah. I would kind of go through it. Overall, our capital allocation themes have not changed for decades since Gary and I have been working together. They moved between investing for growth, looking at M&A opportunities and then returning cash to shareholders. As Gary just alluded to, given the market dislocation and the current multiples, I would tell you we are highly focused on share repurchase. You heard Gary also talk about our investment cycle cresting the hill a bit and being able to pull back on capital a little bit.

That said, I would say, we now anticipate to meet our leverage target by the end of Q1. Based on this expectation, we'll be back in the market in Q2, starting to buy shares. The majority of our $3 billion current year share repurchase will still be in the back half of the year, but we anticipate utilizing free cash flow to return capital to shareholders over the next 24 months.

Over the next two years, we expect share repurchases totaling about $9 billion, Darrin. Additionally, we'll have about $2 billion in dividends and the combination of these two is about $11 billion of free cash flow return to shareholders through the end of 2023. If you look at that $9 billion of share repurchase, it reflects about 17% of our current market cap.

Darrin Peller  
Analyst, Wolfe Research LLC

Wow.

James W. Woodall  
Chief Financial Officer, Fidelity National Information Services, Inc.

So we're going to be extraordinarily focused on buying our shares over the next 24 months. I think that's the right way to utilize capital.

Darrin Peller  
Analyst, Wolfe Research LLC
That's amazing. So that's effectively keeping your leverage ratio under 3, but maintaining it at a certain level, right?

James W. Woodall  
Chief Financial Officer, Fidelity National Information Services, Inc.

That is correct.

Darrin Peller  
Analyst, Wolfe Research LLC

Okay. And that's what, between 2.5 and 3 turns effectively?

James W. Woodall  
Chief Financial Officer, Fidelity National Information Services, Inc.

Let's call it, 2.9 right now given these market multiples.

Darrin Peller  
Analyst, Wolfe Research LLC

Okay. That makes a lot of sense and really helpful. Let's shoot back to the banking segment for a minute and the cap market side before we wrap it up and turn to questions. Again, I think that was a nice surprise when we saw that – well, let's start with capital markets. I mean, the high-single digit growth I think surprised almost all of us in terms of what we've been seeing and the sustainability of that. Gary, just remind us what actually happened there that really drive that acceleration in a business that used to really be a low- to mid-single digit grower?

Gary A. Norcross  
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Well, when we bought the company, I'll remind you it was a negative grower. And so, it was a really important market segment. We saw a lot of opportunities in the capital market space. We actually saw in our large Tier 1s how our buying power was going to come together and our sales engine and we've seen all that success. So, we really rebuilt the whole business.

We went from an individual bespoke product-oriented business that was focused on the front or the back office or the middle. We really solutioned very well there. The team did a great job of investing in what we saw was going to be a movement to SaaS type deployments and we've talked every quarter about the significant sales we've had in SaaS-based sales.

And so, if you look at that just by nature, when you have that kind of level of sales activity and success with all the work we've done around the solutions and you change your go-to-market motion, and you're saying you're recurring SaaS sales go up, it just naturally has to go up to the right. So, one of the things Woody and I talk about is not quite sure how we can be more transparent about that because it's just a long-term – it's the banking business. It's exactly what we did years ago in banking. So, just naturally if you're going to sign five-plus year contracts, they're all going to be deployed based on transaction, based on the account, all in our leveraged environment, so, there's just massive leverage.

Now, you're still going to see some lumpiness due to license fees. They're still what, Woody? About $300 million of license fees I think a year give or take. And so, the timing of that is it's really all renewal business. We're not taking any new logos on license. So, it's really existing customers that are running on-premise. There will be a
point where the growth rate will continue to accelerate and we'll just pull the Band-Aid off and even then start flipping what remains of the license business to SaaS.

So, we feel great about that business.

The team has done an outstanding job of execution. You see the strength of the margins, the contribution margins have been very strong. So, as I said, we'll see a little lumpiness in between quarters because we'll have a big renewal license quarter come in here or there, but really (indiscernible) (00:35:03)

Darrin Peller
Analyst, Wolfe Research LLC

I remember giving you pushing back on how you should sell the business a couple of years ago...

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC

...and I guess it underscores why you're -you do what you do.

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Well, but the reality is what people are also saying is just the benefit we're getting between retail banking and capital markets. I mean I can go down a long list of capital market sales into some of our large retail banking customers, they have capital market needs. We just weren't leveraging the account management front...

Darrin Peller
Analyst, Wolfe Research LLC

Yeah. I guess we don't always see the background on the cross-sell potential between (indiscernible) (00:35:35).

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

That's right. So, that's where it really comes together very nicely.

Darrin Peller
Analyst, Wolfe Research LLC

Listen, we only have a couple of minutes left. Very, very briefly I just want — I mean, modern banking is an area that we keep hearing about in terms of industry checks. But you still having win success there in terms of incremental wins and the pipeline still look good there and rolling into and the conversions are happening on time.

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah. No. Again the business is doing great. I think we think we're up to 19 customers we've sold, as I shared with everybody, when we brought this on market, this is very early stage. Investors need to understand that 100% of financial services, financial institutions is based on legacy technologies pretty much and around the globe. So,
we're at a starting point of a 10-year journey of everybody having to go to transformation and having go to the cloud.

And so, if you look, we're a leader in Tier 1 execution for years. I was asked when is a top 30 institution going to deploy in a SaaS model, and go to a more modern solution? We've answered that question now. They're starting to go. But we've signed 19 customers. I'm going off top my head. I think we're right at nine or 10 that are fully in production. Others are progressing very well.

We've got extremely full pipeline. I was just meeting with a large institution yesterday and they're starting to go through their journey and their discussion. And so, I think we feel great about it. We're starting to see some of our competitors starting to try to respond with M&A activity to try to get into this important market. But we feel great about where we are.

With the solution is really in anybody, any research or they will tell you the solution is really just a superior only architected core banking system, native to the cloud, the flexibility on and it drives the componentization is just unprecedented and it is being very well received in market.

Darrin Peller
Analyst, Wolfe Research LLC

Okay. We're wait on our timeline, but let me take one quick one, if you don't mind...

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Sure.

Darrin Peller
Analyst, Wolfe Research LLC

...because it's an interesting one from the audience, which is just expanding on the question around priorities. Are the recent management changes focused on turning around SMB merchant business? Or is it more broad in terms of what you think about the business? And I'm assuming they're referring to Stephanie, but just maybe anything else you want to comment on management and the leadership team.

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah. I don't think there was anything. There's nothing in the management changes that would suggest it's focused on SMB or even more broad. The reality is Bruce Lowthers have been with the company for a very long time. It was time for him. He wanted to step away. We're leaving on great terms and Bruce wanted to go do pursue the next chapter in his career...

[indiscernible] (00:38:26)

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Yeah. Stephanie took a hiatus. She left us after she was Chief Operating Officer. She took a hiatus for a year and, she went to come back in market and she called and we would like, we were thrilled to bring her back. I think she's one of the great strategists out there. She's a great leader. She's going to be fantastic for us in the President's role.
So, I think the reality is companies, if you look, we have very little changes across our executive team. We've got a very stable group and have for, for years and years. But those changes were nothing more than just that.

Darrin Peller
Analyst, Wolfe Research LLC

That makes a lot of sense. Guys, this has been extremely helpful. Honestly, the data points you gave us were really incremental and interesting. And so, we're big supporters. Really appreciate the time. Guys, for everyone that's on listening, and the next one coming up is at 9:05. There's a dual track with our ADS and a panel revolutionizing finance and technology in emerging markets with three different companies. So anyway, Gary, Woody and [ph] Kelly (00:39:35), thank you guys very much for joining. I really appreciate and be well.

Gary A. Norcross
Chairman & Chief Executive Officer, Fidelity National Information Services, Inc.

Thanks, Darrin.

Darrin Peller
Analyst, Wolfe Research LLC

We'll talk again soon. Take care.