ACI Worldwide, Inc.
ACIW - NASDAQ

November 15, 2018

Rating: Buy
Price: (11/14/18) $28.51
Price Targets: 12-18 month: $34.00
5-year: $48.00

Industry: Financial Technology

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ACIW - Investor Day Highlights Global Opportunities

- ACI Worldwide hosted an Investor Day yesterday in Naples, Florida, with management providing company updates and an enhanced five-year business plan. The presentations by management focused on a number of opportunities in real-time payments, eCommerce and merchant payment, digital banking, and bill-payment. The company also refocused their business structure and platforms, with an emphasis on six products addressing four customer groups (and in two models: On-Premise and On-Demand) all running as part of the Universal Payments (UP) structure, which was first introduced last year.

- There was a heavy focus on opportunities within real time payments, with management noting over 30 countries live with real time payments. Real time payments will continue to contribute to growth with 45 customers expected live by the end of the year. Management noted ACI is deploying their UP real time capabilities as Malaysia ramps their real-time network.

- Recently, management divided reporting on the business into two major categories, Software deployed On Premise and Software deployed On Demand (SaaS delivered through the Cloud). On Premise represents an approximately $600M annual revenue business with over 55% adjusted EBITDA margins. Cloud deployed software represents an approximately $425M annual revenue business with adjusted EBITDA margins close to break-even. Over the last five years, the company heavily invested in ramping their cloud-based infrastructure. Noting the $2B backlog in cloud contracts, management stated the majority of the company’s future growth in revenue as well as margin expansion should stem from cloud deployed solutions. In 3Q18, the On Demand segment generated $3M in EBITDA in the quarter versus small losses in five of the last six quarters.

- Management’s 5-year financial goals include organic revenue growth in the mid- to upper-single digits with roughly 100bp adjusted EBITDA margin expansion per year. Margin expansion is anticipated to stem primarily from high incremental margins in the On Demand segment. Management affirmed the longer-term outlook they provided earlier this year for adjusted EBITDA (under ASC 606), including $300M-$315M for 2019 and $335M-$350M for 2020. This outlook contemplates 9%-10% compound annual growth in adjusted EBITDA (at the midpoints) from 2017 to 2020. Free cash flow is expected to track with EBITDA with a leverage target of roughly 2.5x.

- Management continues to forecast high single digit new bookings growth and they are well positioned to meet or exceed this goal in 2018. While new business bookings (SNET) for the 3Q fell 13%, on a YTD basis, new bookings have increased 27% year-over-year.

- Overall, we viewed the Investor Day update positively, though no new material information was provided. Management continues to execute on their multi-year plan to accelerate growth in revenue and earnings through investments in the solution set.

- We are maintaining our BUY rating and $34 price target, representing an enterprise value of just under 14x our adjusted EBITDA forecast for 2020.

Please refer to pages 2 - 3 of this report for detailed disclosure and certification information.

D.A. Davidson & Co. Member SIPC
Required Disclosures

D.A. Davidson & Co. makes a market in ACI Worldwide, Inc. and Bottomline Technologies.

D.A. Davidson & Co. expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

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Rating Information

D.A. Davidson & Co.’s Institutional Research Rating Scale Definitions (maintained since October 10, 2017); information regarding our previous definitions is available upon request:

BUY: Expected to produce a total return of over 15% on a risk adjusted basis over the next 12-18 months
NEUTRAL: Expected to produce a total return of -15% to +15% on a risk adjusted basis over the next 12-18 months
UNDERPERFORM: Expected to lose value of over 15% on a risk adjusted basis over the next 12-18 months

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<th>Rating Distribution (as of 9/30/18)</th>
<th>Coverage Universe Distribution</th>
<th>Investment Banking Distribution</th>
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<tr>
<td></td>
<td>IR</td>
<td>WMR</td>
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<tr>
<td>BUY (Buy)</td>
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<td>NEUTRAL (Hold)</td>
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<td>UNDERPERFORM (Sell)</td>
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IR denotes Institutional Research; WMR denotes Wealth Management Research whose rating scale is Buy/Add, Neutral, Sell/Reduce. Investment Banking Distribution denotes companies from whom D.A. Davidson & Co. has received compensation in the last 12 months.

ACI Worldwide, Inc. Rating History as of 11/14/2018
powered by: BlueMatrix

Closing Price
Target prices are our Institutional Research Department’s evaluation of price potential over the next 12-18 months and 5 years, based upon our assessment of future earnings and cash flow, comparable company valuations, growth prospects and other financial criteria. Certain risks may impede achievement of these price targets including, but not limited to, broader market and macroeconomic fluctuations and unforeseen changes in the subject company’s fundamentals or business trends.

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Other Companies Mentioned in this Report

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