

Case: FIS after Worldpay - Where Should the Proceeds Go?

Internal ID: S&F-STR-255

Topic: Capital Allocation, Risk Management, Pricing Strategy

Industry: Transaction & Payment Processing Services

Source: Strategy & Finance

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License: Not specified

Audience: MBA students and working professionals

Decision date and information cutoff: May 6, 2024, 11:59 p.m. EDT

Case convention: This is a public-information strategy exercise, not a claim about private FIS deliberations. FIS had scheduled an Investor Day for May 7 to discuss strategy and its medium-term outlook. This case stops the evening before that event. It excludes the Investor Day, all subsequent disclosures, and later outcomes.

The decision

On May 6, 2024, Fidelity National Information Services, Inc. (FIS) reported first-quarter results and raised its 2024 share repurchase target by \$500 million, to approximately \$4.0 billion. The company had repurchased \$1.4 billion of shares during the quarter. The announcement sharpened a capital-allocation question that followed the January sale of a majority stake in Worldpay: how much of the resulting financial capacity should FIS return to shareholders, and how much should it reserve for debt reduction and investment in the businesses it retained?

FIS had disclosed a broad intention: use the Worldpay proceeds to reduce debt and repurchase shares, while maintaining investment-grade ratings. But the Q1 filing said it was still evaluating the optimal capital structure after the sale. It also described dividends and repurchases as discretionary and dependent on cash requirements, investment opportunities, and other factors.

Your task is to advise FIS leadership on a capital-allocation policy for the next several years. Decide whether the company should complete its announced 2024 buyback target as planned, stage or condition future repurchases, or reallocate more capital to debt reduction and the continuing businesses. Explain how the policy should balance shareholder returns with product, software, cybersecurity, client and regulatory needs. Recommend decision gates and measures that could keep the policy credible as the business develops.

This is a strategy recommendation, not a valuation exercise. The public record does not disclose enough project-level economics to calculate a single optimal dollar allocation. Do not invent returns, spending commitments or rating thresholds.

What FIS sold and what it retained

FIS completed the sale of a 55% interest in its Worldpay merchant-solutions business to GTCR on January 31, 2024. The announced transaction valued the business at \$18.5 billion of enterprise value, including up to \$1 billion of contingent consideration. FIS retained a noncontrolling 45% interest in Worldpay Holdco and recognizes its share of Worldpay's earnings or losses using the equity method.

FIS said it received more than \$12 billion of net proceeds after estimated closing adjustments, fees, taxes and transaction costs. Its Q1 cash-flow statement separately showed \$12.795 billion of net proceeds from sales of businesses and investments and \$3.137 billion of cash divested with the sold business. Those statement entries are not a second estimate of the transaction's net proceeds. Enterprise value, contingent consideration, estimated net proceeds and cash-flow statement lines describe different things. [S1, transaction release and 8-K exhibit; S2, printed p. 6.]

The transaction changed FIS's reported portfolio. Its continuing reportable segments were Banking Solutions and Capital Markets Solutions. The sale did not eliminate every connection to Worldpay: FIS retained its equity stake, reported an \$86 million after-tax equity-method investment loss for the two months from February through March, and reported slightly higher corporate costs from sale-related dis-synergies, mostly offset by other cost-saving initiatives. FIS did not quantify the future cost curve for transition arrangements or the value of the retained stake in the sources used here. [S2, printed pp. 24, 29, 31; S3.]

A business that still needs capital

Banking Solutions provides core and transaction-processing software and related applications to financial institutions and other clients. Many offerings interact with core processing and are sold under multi-year contracts. Capital Markets Solutions supplies systems for recordkeeping, data and analytics, trading, financing and risk management to asset managers, brokers, insurers, private-equity firms and other financial-services clients. FIS describes these solutions as mission-critical and points to recurring revenues, innovation, integration, information security and compliance as investment priorities. Those are management's descriptions, not independent assessments of product quality or project returns. [S2, printed pp. 23-25.]

The Q1 results offered some positive signals. Continuing-operations revenue rose 3% to \$2.467 billion. Banking Solutions revenue rose 2%, and Capital Markets revenue rose 7%. Management reported adjusted recurring revenue growth of 5% for the continuing company. It also reported a 10% decline in professional-services revenue. In Banking, recurring revenue contributed 3 percentage points to segment growth, while nonrecurring and professional-services revenue together detracted 1 point. In Capital Markets, recurring revenue contributed 7 percentage points to segment growth. Management attributed Banking margin expansion in part to cost savings and a favorable mix, and said Capital Markets' adjusted EBITDA margin declined because of mix. [S2, printed pp. 24-25; S3, Q1 results tables.]

Capital spending and transformation continued. Q1 capital expenditures were \$202 million: \$118 million in Banking, \$76 million in Capital Markets and \$8 million in Corporate and Other. The cash-flow statement separately reported \$175 million of software additions and \$27 million of property-and-equipment additions. Q1 costs classified as enterprise transformation, including Future Forward and platform modernization, were \$73 million, compared with \$71 million a year earlier. The latter is a reported expense category, not a measure of total technology investment or its return. [S2, printed pp. 6, 22, 25.]

FIS identified failure to adapt solutions to technology and marketplace changes, as well as security and privacy breaches, among its risks. This supports the strategic importance of continued product and security investment. It does not quantify the resources required or show what those investments will earn. [S2, printed pp. 27-28.]

Exhibit 1. Q1 2024 continuing-operations snapshot

Measure	Q1 2024	Comparison / scope
Revenue	\$2.467bn	+3% year over year
Adjusted EBITDA	\$975m	Continuing operations; issuer-defined non-GAAP measure
Adjusted EBITDA margin	39.5%	+200 basis points year over year
Adjusted recurring revenue	+5%	Continuing operations
Professional-services revenue	–10%	Continuing operations
Banking Solutions revenue	\$1.684bn	+2% year over year
Capital Markets Solutions revenue	\$706m	+7% year over year
Capital expenditures	\$202m	Banking \$118m; Capital Markets \$76m; Corporate and Other \$8m
Continuing-operations operating cash flow	\$206m	\$291m in Q1 2023; management cited working-capital timing as the primary reason for decline

Source: [S2], printed pp. 6, 24-25, 33-34; [S3], Q1 results tables. Values rounded as reported. Adjusted EBITDA is not operating income, cash flow or free cash flow. Operating cash flow is not free cash flow; do not subtract only capex and treat the result as a normalized forecast.

Reported earnings illustrate why definitions matter. Q1 continuing-operations GAAP diluted EPS was \$0.03, while adjusted EPS was \$1.10. Including discontinued operations, total-company GAAP diluted EPS was \$1.25 and adjusted EPS was \$1.33. The continuing-operations cash-flow reconciliation included noncash adjustments such as an \$86 million equity-method loss and a \$174 million loss on extinguishment of debt. Sale accounting, discontinued operations and adjustments materially affect the comparison. [S2, printed pp. 4-7; S3.]

The balance sheet and the capital-return plan

At March 31, FIS reported \$7.8 billion of available liquidity, made up of \$3.3 billion of cash and cash equivalents and \$4.5 billion of available revolver capacity. About \$1.1 billion of cash was held by foreign entities. FIS said most cash related to unused Worldpay proceeds plus settlement payables and net deposits in transit, typically settled within a few business days. Total debt was \$11.2 billion, with an effective weighted average interest rate of 2.9%. The \$7.8 billion liquidity figure is not cash on hand: it includes an undrawn credit line, and the cash balance includes settlement-related amounts. [S2, printed p. 33.]

FIS said its current cash and operating cash flows should be sufficient for operating needs, capital expenditures and mandatory debt service over the next twelve months and the foreseeable future. It also said it continued to evaluate the optimal post-sale capital structure while intending to maintain investment-grade debt ratings. The filing does not state a rating-agency threshold or a target debt balance. [S2, printed p. 33.]

The board's 100-million-share repurchase authorization had no expiration date and could be suspended, amended or discontinued. About 34 million shares remained available at March 31. Management said it would prioritize repurchases under the authorization and intended to

repurchase approximately \$4.0 billion during 2024, including the \$1.4 billion purchased in Q1. FIS also declared a quarterly dividend of \$0.36 per share and described a target payout ratio based on adjusted net income excluding earnings or losses from its retained Worldpay interest. The board retained discretion over future dividends and the timing and amount of repurchases. [S2, printed p. 33; S3, Capital Allocation Update.]

The balance sheet was changing rapidly during the quarter. The Q1 cash-flow statement recorded \$21.379 billion of repayments of borrowings and other financing obligations and \$13.441 billion of borrowings in continuing operations. These gross movements include transaction-related financing activity and cannot be read as a single net debt-paydown commitment. The filing reports debt outstanding at quarter-end but does not present all debt-maturity and rating-agency considerations as a student-ready capital-allocation model. [S2, printed pp. 6 and 33.]

Exhibit 2. Capital resources and declared intentions

Item	Amount / statement	What it means
Worldpay sale enterprise value	\$18.5bn	Announced transaction valuation, including up to \$1bn contingent consideration
FIS-stated net proceeds	More than \$12bn	After estimated adjustments, fees, taxes and transaction costs
Q1 cash-flow statement sale proceeds	\$12.795bn	Cash-flow line for sales of businesses/investments
Q1 cash divested	\$3.137bn	Cash leaving with sold business
Cash and cash equivalents, Mar. 31	\$3.3bn	Balance-sheet cash; includes settlement-related balances
Revolver availability	\$4.5bn	Borrowing capacity, not cash
Available liquidity	\$7.8bn	Cash and cash equivalents plus revolver availability
Total debt, Mar. 31	\$11.2bn	Weighted average interest rate 2.9%
2024 repurchase intent	About \$4.0bn	Includes \$1.4bn already repurchased in Q1
Quarterly dividend	\$0.36 per share	Declared for June 2024; future declarations remain discretionary

Sources: [S1], transaction release and filing; [S2], printed pp. 6 and 33; [S3], “Capital Allocation Update.” The figures have different dates, scope and accounting meaning. They should not be added or netted without a justified calculation.

A competitor's signal, with limits

Fiserv reported Q1 2024 GAAP revenue growth of 7%, with Merchant Solutions up 13% and Financial Solutions up 3%. It reported organic revenue growth of 20% on its adjusted basis, adjusted EPS growth of 19%, and \$1.5 billion of share repurchases. Fiserv's business mix, segment definitions, scale and adjusted measures differ from FIS's continuing operations. Its results show that a competitor reported growth and capital returns at the same time; they do not establish what FIS should invest or return. [S4.]

Exhibit 3. Fiserv Q1 2024 context

Measure	Fiserv Q1 2024
GAAP revenue growth	+7%
Merchant Solutions GAAP revenue growth	+13%
Financial Solutions GAAP revenue growth	+3%
Organic revenue growth	+20% (issuer-defined)
Shares repurchased	\$1.5bn

Source: [S4], Apr. 23, 2024 release. Not directly comparable to FIS figures.

What research suggests-and cannot resolve

Feldman studied whether spin-offs changed capital allocation inside the remaining parent firms. The empirical sample included 196 companies with 228 spin-offs from 1995 to 2009, compared with propensity-score-matched firms. The author measured segment capital expenditures relative to assets and related the allocation to segment-industry investment opportunities measured with Tobin's q. In baseline Table 5, the post-spin-off interaction coefficient was 0.037 (standard error 0.017, $p < .05$). Given a one-standard-deviation increase in industry q of 0.48, the author translated this into a 0.018 increase in the segment-capex/assets measure, about 25% of its 0.07 mean. Table 6's estimates were larger in year one (0.069, SE 0.020, $p < .01$) and year two (0.038, SE 0.011, $p < .01$), and smaller and statistically insignificant in year three (0.026, SE 0.050). [S5, Tables 5-6, pp. 266-267, and note 10.]

The study suggests one possible mechanism: a portfolio change can free managerial attention and make investment more responsive to measured opportunities. It also finds an association that attenuates over time. Its dependent measure is capex relative to assets and its opportunity proxy is industry q; the coefficients are not investment returns, cash-flow effects or a forecast. The sample consists of spin-offs, whereas FIS sold control of Worldpay but retained 45% and continuing commercial ties. None of the estimates transfers to FIS or quantifies the effect of the Worldpay sale.

A competing interpretation is that management attention and coordination costs remain because FIS still owns a substantial Worldpay stake and reports transition-related dis-synergies. Continued investment may protect mission-critical products, security and client relationships, but current public disclosures do not establish the marginal returns of individual projects. The choice therefore requires a policy for comparing debt, investment, M&A and shareholder distributions under uncertainty-not a mechanical application of a study coefficient.

Your assignment

Prepare a two-page recommendation memo for FIS leadership as of May 6, 2024. State the capital-allocation policy you recommend for the balance of 2024 and the following planning period. Address how to treat the announced repurchase target, what conditions would justify more debt reduction or investment, and how the board and management should monitor the decision.

Your memo should:

- distinguish transaction enterprise value, contingent consideration, issuer-stated net proceeds, cash-flow statement proceeds, cash, revolver capacity and total available liquidity;
- distinguish GAAP results from adjusted measures, and cash flow from capex and any free-cash-flow claim;
- identify investments and risks in the continuing businesses, while explaining what project-level evidence is missing;
- discuss the significance and limits of the Fiserv comparison and the spin-off research;
- state at least three decision gates or metrics and explain how each would change capital deployment;
- present the strongest argument against your recommendation and the evidence that would make you revise it.

The evidence supports more than one defensible allocation policy. Be explicit about assumptions, uncertainty and opportunity cost. Do not treat management's stated intent as irrevocable, equate liquidity with spare cash, or invent financial returns.

Discussion questions

1. What is the relevant capital pool for FIS after the sale? Which figures can be compared, and which cannot?
2. Should FIS complete its approximately \$4.0 billion repurchase target for 2024? What evidence would justify maintaining, staging or revisiting that intent?
3. How should FIS compare debt reduction with investments in Banking and Capital Markets when segment-level capex and transformation expense do not establish project returns?
4. Does the retained Worldpay stake make the transaction's focus benefits more or less plausible? What coordination and dis-synergy evidence matters?
5. Which operating, balance-sheet and investment metrics should govern future capital allocation, and how should FIS report them to shareholders and clients?

Sources and conventions

S1. FIS, “FIS Completes Sale of Majority Stake of Worldpay to GTCR,” Feb. 1, 2024, [company release](#), and related [SEC 8-K exhibit](#).

S2. FIS, Form 10-Q, quarter ended Mar. 31, 2024, filed May 6, 2024, accession 0001136893-24-000063, [SEC filing](#). Printed pp. 4-7 (financial statements/cash flow); pp. 22-25 (transformation costs and segment results); pp. 27-29 (risk factors and subsequent/discontinued-operation context); pp. 33-34 (liquidity, capital return, operating cash and capex).

S3. FIS, “FIS Reports Strong First Quarter 2024 Results and Increases Full-Year Adjusted EPS Outlook,” May 6, 2024, [company release](#). Headline results, segment tables, “Capital Allocation Update.”

S4. Fiserv, “Fiserv Reports First Quarter 2024 Results,” Apr. 23, 2024, [company release](#). Q1 GAAP results, adjusted metrics and share repurchases.

S5. Feldman, Maryann P. 2016. “Corporate Spin-Offs and Capital Allocation Decisions.” *Strategy Science* 1(4): 256-271. [Published full text](#); DOI [10.1287/stsc.2016.0022](#). Full article read. Student locators: Table 5, p. 266; Table 6 and note 10, p. 267.

All financial amounts are USD. Q1 means the three months ended March 31, 2024. Reported, adjusted, continuing-operation and total-company scopes are labeled separately where cited. No May 7 Investor Day materials or post-cutoff information is included.