



ANALYST QUICK NOTES

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Blackhawk Network Holdings Inc. (NGS: HAWK: BUY)

Target Price: \$47

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Investment Thesis

- Recap of 1Q results reported on April 26:
 - Adjusted revenues (ex. distributors) rose 15%.
 - Exceeded management's guidance on return of customer traffic that had diminished due to EMV compliance issues.
 - Adjusted EPS of \$0.02, down from \$0.17, but ahead of our \$0.02 loss estimate and consensus loss of \$0.04.
- Principal theme behind HAWK is a recovery of sales of high-value open-loop card products following delayed implementation of payment terminals with new EMV chip technology.
 - Retailer distribution partners limited the sale of stored-value cards following late-2015 shift in fraud losses to retailers from credit card-issuing banks.
 - Device certification bottlenecks and cost delayed implementation.
- In 1Q, sales of open-loop gift cards rebounded to 92% of their 2015 level on greater EMV chip implementation (up from 88% in 4Q):
 - Nearly all of top 25 distribution partners have now become EMV compliant.
- Secular tailwinds include stored-value cards being used increasingly for gifts and incentives:
 - HAWK has identified addressable market as \$176 billion in the U.S.
- Other segments have not been affected by EMV compliance:
 - Incentives segment (31% of revenues) expected to grow in the high teens on expansion of employee, consumer and partner solutions, and contributions from acquisitions.
 - International segment (15%) growing 50%+ as it expands content and cross-sells digital and incentives solutions.

- As EMV transition issues abate, we look for revenue to rebound strongly in the second half of 2017:
 - We look for revenue growth of 22% in 2017, following a 5% decline in 2016.
 - Our EPS estimate of \$1.67 implies 17% growth.
 - Higher tax rate partly responsible for slower growth in EPS. Expect operating expenses to be well controlled.
 - Company guidance is relatively wide at 16% to 28% for revenue growth, 9% to 19% for EPS growth.
 - Medium-term targets include revenue growth of 18%-20%, adjusted EBITDA growth of 19%-21%, and annual EBITDA margin expansion of 25-75 basis points.
 - Our target price of \$47 implies a multiple of 28-times our 2017 EPS estimate:
 - In line with historic valuation following return to mid-teens EPS growth rate.
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