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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the first-quarter 2013 First Data financial-results conference call. My name is Vanessa, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following the prepared remarks, there will be a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Chip Swearngan, Senior Vice President of Communications and Investor Relations of First Data. Sir, you may begin.

Chip Swearngan - *First Data Corp - SVP, Communications & IR*

Thank you, Vanessa, and good morning, everyone. Thank you for joining us for this financial-results conference call. First Data Chief Executive Officer, Frank Bisignano will top line today's call, and our Chief Financial Officer, Ray Winborne will lead the discussion of the first-quarter 2013 financial results and answer your questions.

Please turn to slide 2 for some important information about this call. Our comments today include forward-looking statements, and we ask that you refer to the cautionary language in our Form 8-K that was filed today with the Securities and Exchange Commission for information concerning factors that could cause actual results to differ materially from those in the forward-looking statements. We also will discuss items that do not conform to generally accepted accounting principles, and we reconcile those measures to GAAP measures in the appendix in this presentation and as part of our quarterly results press release, which can be found on our website at investor.firstdata.com. With that, I will hand the call over to our new Chief Executive Officer Frank Bisignano.

Frank Bisignano - *First Data Corp - CEO*

Good morning and thank you. Thank you for joining us. Before we turn the call over to Ray for the quarterly review, I would like to tell you how happy I am to be at First Data. When you think about this Company, it is a global leader and it is an innovator. It is a customer-based franchise. I am pleased to join a Board of Directors with Joe Forehand and Henry Kravis, Scott Nuttall and Tagar Olson. And I want you to think about payment processing as a transaction processing business that I know very well. Some of you know that I lead and built the global transaction services business at Citi and I had just finished the economic turnaround business turnaround for the mortgage company at JPMorgan. I have a lot of experience leading large global enterprises, large technology organizations, large operations organizations and customer-focused businesses.

And I think FDC is really a part of a dynamic industry that is a rapidly changing industry. I think this is a customer-focused organization. I have to tell you I was most fortunate yesterday to talk to a number of our customers who called and were talking about how well they think about this Company and how important this Company is to them. And that was very pleasing to me on my first day on the job. I believe the Company is poised to grow. We are the world's largest transaction payment processor. We will come back and continue to work as much as possible to update you on our progress.

I am affirming the strategic plan as we go through this that was presented in November, and I will continue to examine what we do on the bottom line, on the expense line, on the top line, to continue to affect all of those. I just think for me, this is a fabulous opportunity. And I am more enthused after my first day on the job with the talent that I have met in the organization and also having talked to the customers and reviewed some of the initiatives.

In closing, I would be remiss if I didn't express my appreciation to a gentleman who I have spent little more of the past few days with over the weekend and into yesterday, Ed Labry. He has for years been a key leader of this Company and predecessor companies. He has done a fabulous job in the past 90 days having this place organized for change. He knows this business inside and out, has been a leader, been a partner to me since the minute we shook hands. And he will be an important partner of mine going forward for sure. I would like to turn it over to Ed for a couple of comments, if I may.

Ed Labry - *First Data Corp - President, Retail & Alliance Services*

Thank you, Frank. I will be brief. The CEO experience was great for me, and I want to thank Scott and Joe and the rest of the Board for giving me that opportunity. I know I surely learned a lot in doing it. As you come in, I am excited that you are here. I think that the experiences that you have done in the past are going to bring so much to First Data. You have a tremendous Rolodex and high-level contacts that we get to work with. So my number-one job is going to be working with you and making sure this Company continues its success, long-term success as we go forward. So, I'm going to turn it over to Ray and talk about the quarter, so thank you.

Ray Winborne - *First Data Corp - EVP & CFO*

Thank you, Ed. Good morning, everyone. Given the overall strength of the first quarter last year, we anticipated a tough comparison on the top-line growth. Current quarter profitability, however, did not measure up to our expectations. And while we had some unusual items push through expense this quarter, we have begun to implement several measures to align the cost structure with our near-term revenue growth prospects. The US economy continues to sidle along. Economic indicators have been mixed from pockets of strength to new weaknesses depending on the week or the headline. Recent retail sales reports suggests that consumers may be hesitant in buying nonessential items. Large retail sales, excluding gasoline, automobiles and building materials, which is a closer gauge of consumer behavior, were only up 2% year over year. Counterbalancing that, signs of improving housing and employment have supported expanding consumer credit. In the near term, our expectations are for similar economic trends, with much of the benefit of our business coming from continued secular shift to electronic payments.

Now moving to the consolidated results from slide 4, for the first quarter, consolidated GAAP revenue rose to \$2.6 billion, up 1%, \$27 million, compared to last year. Growth was driven primarily by a \$38 million increase in reimbursable debit network fees, postage and other, the majority of which are margin-neutral pass-through fees. For the first quarter, the net loss attributable to First Data was \$337 million, an increase of \$185 million compared to a year ago, \$170 million of which is attributable to the year-over-year change in the income tax provision. This quarter's

effective tax rate reflects a change in our U.S. net deferred tax position and resulting valuation allowance on tax benefits related to the current operating losses. The tax provision does not affect cash taxes, and given our sizable net operating loss carry forwards, we don't expect to pay federal tax in the near future.

We manage the business using adjusted revenue, which excludes certain items, including debit network fees and conforms the presentation for other items. We believe this presentation is more meaningful in terms of understanding our performance, margins, and their related operating metrics. Adjusted revenue for the first quarter was \$1.6 billion. That is flat the last year as growth in our acquiring businesses around the world were offset by continued headwinds in our issuing businesses. Adjusted EBITDA was \$520 million, down 6% compared to last year, and expenses were up 2%, pressuring margins, which came in at 32% for the quarter.

Let's move into segment performance, starting with retail and alliance services on the slide 5. Revenue was \$861 million, up 2%, which translated into EBITDA of \$354 million, up 1% versus last year. We saw lower flow through this quarter, as expense included a \$5 million provision for uncollectible receivables, resulting in the slight decline in EBITDA margin to 41%. Looking at the revenue growth trends on this chart, the growth over the last -- or the first three quarters of 2012 reflected tailwinds from the implementation of lower debit interchange rates and additional BAMS processing revenue, which came on board in late 2011. The growth over that period otherwise averaged closer to 3.5%.

Let's go to slide 6 for a closer look at the revenue drivers in the segment. In merchant services, which accounts for more than 70% of the RAS business, revenue was up 1% against a strong prior-year comparable. Same-store sales volume grew 4% this quarter versus 9% last year, when retail sales benefited from unseasonably warm weather in the United States and an extra shopping day due to Leap Year. We have continued to see variability in consumer spending patterns and levels, as confidence continues to be impacted by a number of potential items, be it the payroll tax hike, rising gas prices, or just general economic uncertainty.

Transaction growth was 4% in the quarter, while revenue per transaction compressed 3%, leading to the 1% increase in revenue. Normalizing for the loss of some low-yield transactions, normalized revenue per transaction was down 5%, in line with recent trends. Revenue per transaction is an all-in revenue yield. It can be affected by a combination of factors, including merchant mix, pricing plans, merchant attrition, and contract renewals. In the quarter, these impacts were partially offset by the benefit of network routing incentives.

Credit signature debit mix remained stable at 70%. As the chart shows, growth in PIN debit transactions continues to outpace credit signature debit. This is occurring primarily in the large merchant space, and as a result, has a minimal impact to revenue, given the modest rate differential. The chart on the bottom-right quadrant of this slide reflects the addition of total average ticket at the point-of-sale, providing a directional indicator of consumer confidence. You can see that the quarterly growth rates reflect the ebbs and flows in consumer spending patterns across the last five quarters, which was down slightly this quarter. The same chart continues to reflect regional average ticket, which is one of the key indicators for revenue from spread-based transactions.

While the regional average ticket increased 4% year over year to \$77, overall volumes for spread-based transactions were down, offsetting the revenue impact. The industry has continued the steady shift towards interchange plus pricing plans, with roughly 85% of our transaction volume now priced on this method. So changes in average ticket are not as impactful on the overall merchant revenue growth as they once were.

Turning to product. Revenue in the prepaid business was up 26% on growth across all product lines. Our Money Network payroll card continues to grow from both increased volumes from existing merchant programs and the addition of new programs each quarter. Closed-Loop revenue increased, driven by double-digit transaction growth, and form-factor revenue was up on higher card shipments in the quarter. There have been a lot of headlines recently on prepaid, which in turn has raised interest in our business. We have been a leader in this space for over 20 years. To give you a sense of scale, we have over 4,000 payroll programs, with roughly 1.7 million active payroll cards. In Closed-Loop, we have got over 100,000 gift merchants on our platform, with 30% regularly active. In the first quarter alone, we processed over 1.1 billion gift transactions. We think there is tremendous growth opportunity in coming years with the launch of virtual prepaid.

Revenue in the point-of-sale equipment business was down a little under 1 percentage point, driven by continued double-digit growth and interest income on terminal leasing, offset by a decline in bulk sales relative to a year ago. Finally, while we still process nearly \$40 billion in total check value annually, volumes declined year-over-year on the shift to electronic payments. We continue to manage expenses in this line of business,

supporting margins in the face of declining revenues. Looking ahead in this segment, based on the easing comparables to prior year and the current trends, we anticipate moderately improved revenue growth in the second half of the year versus what we see in the first.

Now turning to the results of the financial services segment on slide 7. Revenue was down 4% compared to a year ago. About half of that decline is driven by the divestiture of two small, non-strategic businesses late in the year last year. Another point of decline relates to a price concession to resolve a customer dispute. So the remaining 1% decline relates to lost business and pricing pressures offsetting the benefits of new business and volume growth in the business. EBITDA decreased \$24 million, or 15% in the first quarter. The decline reflects both lower revenue and higher technology and operations costs, the drivers of which I would categorize into three buckets. Higher output volumes, increased security investments, and a shift in the mix of projects that resulted in lower rates of labor capitalization in the quarter. EBITDA margin was 40%, down from 46% a year ago.

For the full year, we are projecting revenue will be flat to slightly down compared to 2012. To manage through near-term pressures on revenue, we have announced some targeted cost reductions in this business. We see opportunities to simplify and streamline various parts of the organization while continuing to invest in our market-leading platform. You can expect we will bring EBITDA margins back towards 2012 levels as we move through the year.

Let's take a closer look at the financial services on slide 8. Processing revenue, which represents debit and credit processing, plus network services, was down 7%, or \$15 million. Lost business, including the lingering impact of Wells debit processing, which will be behind us after the second quarter, and pricing offset growth from new business and volumes. Transaction growth continues to benefit from the secular trend from cash to debit, as well as more active credit usage.

In the bottom right corner of the slide, you will note that we have modified transaction volume chart to reflect the underlying trends and different transaction types. As you can see, volumes from Wells drop off after the second quarter of 2012. Gateway activity, which represents volumes we switch on behalf of other networks, has ebbed and flowed, post-Durbin, as merchants adjust routing to different networks. The average rate on these transactions is significantly lower than the overall average. Absent the noise of those two items, transactions increased 8%, with much of the growth being attributable to new financial institution participation and STAR network signed connection with Durbin last year, which anniversaries in the second quarter. Beyond that lift, organic growth in existing customers offset the impacts of lost business and merchant-driven routing decisions and of course the headwinds associated with Leap Year.

The revenue impact from Durbin-related activity continues to be a positive contribution to revenue. In the 12 months since the implementation of the Durbin non-exclusivity rules, competition for priority and transaction-routing tables has been intense, and we expect that to continue. To maintain competitiveness in this space, we will continue to make volume and rate trade-offs as we go forward.

Moving to the other product areas, output-services revenue was up 8% on higher print volumes and growth in plastics, driven by new business, while other revenue was down 12%, resulting from the divestitures I mentioned earlier. Active card accounts on file were 139 million this quarter, up 6%, as we grew over the Kohl's implementation in March from last year, and represents the strongest underlying growth that we have seen in over three years. We continue to see opportunity for future growth in this business. Organic growth in the current portfolios we service was up 5%. Private-label card portfolios, where First Data is the industry-leading provider, continue to generate strong interest among issuers, many of the largest of whom are our current customers. And consumer credit has continued to recover from the lows reached in the recession, with credit expanding in the form of additional cards and greater outstanding balances, but has only recently returned to 2006 levels.

Let's move to slide 9 for a review of international. Revenue in our international business was \$409 million, up 1%, or \$4 million, on a reported basis. Double-digit growth in merchant acquired was offset by a 7% decline in the issuing business. On a constant currency basis, segment revenue was up 2%. Volume growth in the acquiring business has been surprisingly resilient given the difficult macroeconomic backdrop in Europe. As the year progresses, we will grow through some of the headwinds of customer losses in the issuing business. And barring major economic shifts, we anticipate a moderately improving top-line trajectory in the back half of the year for this segment. EBITDA was \$100 million in the quarter. That's up \$5 million or 5% versus a year ago. Foreign currency continued to be a slight headwind, as EBITDA was up 7% on a constant currency basis. Expenses were held flat year-over-year, as we benefited from cost reduction initiatives put in place last year, which funded growth and new investments in the acquiring business. We continue to expand margins year-over-year in this business.



Turning to slide 10, looking at revenue growth on a constant currency basis in each of the four regions of our international business. Revenue in EMEA was up 5%, reflecting a steadily improving trend. Merchant acquiring related revenue was up 11% on growth and volumes, while issuing revenue declined 1% on business loss in prior periods. The results in this region are a direct result of solid execution by the team on the ground and conscious choices made over the last two years to focus on acquiring growth and rationalize the cost structure in the face of pressures in the issuing business.

Asia-PAC revenue was down \$7 million, or 7%, on lower ATM volumes, primarily due to an unfavorable regulatory change affecting ATM placement and the loss of a large wholesale switching relationship, where the customer decided to take the volume back in-house. The acquiring business, albeit a small piece of the overall region, is performing well.

Latin America revenue was up \$6 million, or 10%, on continued growth in transaction volumes in terminal sales, as well as higher pricing associated with inflationary pressures in Argentina. Lastly, the decline in Canada is attributable to lower volumes and a customer pricing concession in the issuing business. Acquired revenue was down 2%, as higher transaction volumes were offset by a decision to reduce lower-margin bulk terminal sales.

Slide 11 provides a roll forward of cash. We ended the quarter with \$434 million in cash and cash equivalents. We had \$1.6 billion in available liquidity and no borrowings outstanding on the revolver at the end of the quarter. First quarter cash flow from operations was \$69 million, or \$542 million before cash interest payments. You can find projections with 2013 quarterly cash interest payments in the financial attachments to the press release. Capital expenditures for the quarter totaled \$91 million, reflecting customer related investments and further development of infrastructure, application, and information security assets. We will continue to invest in this business. Our capital plan in 2013 is targeted at 6% to 7% of adjusted revenue.

Now I'd like to take a few minutes on First Data's capital structure on slide 12. As you heard me note earlier, we generated significant cash flow. We have no covenant issues, and we have plenty of headroom on our only financial covenant, which is the ratio of consolidated senior secured debt to consolidated EBITDA. The current ratio is 4.2 times, which is comfortably under the covenant limit of 6.25 times. We have ample liquidity sources with cash on hand, a \$1.5 billion revolver and cash generated from operations. We have no significant debt maturities until 2016. As you can see on the slide, we have improved our maturity ladder and liquidity profile dramatically. We have refinanced over \$20 billion in debt maturities since August 2010, including \$1.8 billion over the past few months.

In addition, we extended \$1 billion of revolver capacity out to September 2016. Our entire capital structure has continued to trade well, which gave us the opportunity to reprice \$3.7 billion in term loans in April, reducing the rate by 100 basis points, which is a \$37-million reduction in annual interest payments. Using the current capital structure and the forward curves, we are projecting cash interest payments of \$1.8 billion in both 2013 and 2014. We have a weighted average interest rate of approximately 8% across the debt structure, and roughly 84% of our debt is fixed-rate or swap-to-fix-rate, providing a measure of certainty for when interest rates eventually do begin to rise.

Finally, despite long runway before maturity dates, we have proactively managed the balance sheet to reduce risk and provide time to execute against our business plan. We have been optimistic in when and how we have approached the market. And given our past success, you can expect us to continue on this path.

Looking ahead, U.S. housing fundamentals and employment levels are gradually improving. Internationally, the acquiring business continues to exceed our expectations. While we cannot control the global economic environment, we will continue to execute against our strategy. During the quarter, we started to reorganize the Company around our strategic imperatives. The effort is more reengineering than a reorganization, as we will be addressing structural cost, taking the opportunity to eliminate redundancies and duplication. The key tenants are simplicity, clear accountability, and empowerment of those closest to the customer. But it is more than that; it is about creating a culture of customer experience that will exceed our customers' expectations. While those sound like easy ideas to implement, they will require changes in our leadership and our organizational structure.

Ultimately though, success will be determined by our ability to grow the top line. While 2013 will be challenging from that perspective, we have a clear strategy and plans to accelerate future revenue growth. First, sector structural growth, it starts with having the largest, most diversified



exposure to electronic payments of any player in the world. The strong, secular trend will provide a tailwind for years to come, meaning our core acquiring and issuing businesses in the existing base of 6 million plus merchant locations and over 4,000 financial institutions around the globe will be a source of growth. And while nearly all forms of electronic payments will grow, we will tune our portfolio of businesses to focus on the greatest opportunities for growth.

Second, in the U.S. acquiring business, which is our largest, we are optimizing the business we know well - improving opportunities to accelerate new merchant flow by tightening alignment with our bank partners and increasing salesforce productivity, reducing time to revenue with enhancements to the boarding process, and improving our service model. We are running specific plays to improve merchant retention rates, and we will continue to evolve our pricing in order to maintain market leadership and align value with price. These are actions we must take in today's increasingly competitive environment. While we currently partner with the biggest and best known bank brands in the industry, we are attracting new bank brands to the revenue-sharing model that we pioneered.

Third, we are responding to marketplace changes, including establishing a greater focus around a market segment of small to medium-sized business. New technologies are enabling us to deliver new services to this market. We see a significant opportunity to help these sized businesses enhance the customer-merchant engagement in a similar, more integrated fashion. We intend to capitalize on our distribution and existing base by selling software solutions, that along with the payment data, will help them manage the performance of their businesses in a more integrated way, and more importantly, provide them with actionable intelligence about their customers. These solutions will enable small business owners to create customized marketing campaigns, to build loyalty, and drive revenue with a smaller amount of spend and a lot less effort. For First Data, it provides an opportunity to tap a new profit pool across our existing base of customers as well as new customers.

As we mentioned last quarter, we have invested in a platform and plan to bring a smart point-of-sale solution to market later this year. We have some pilots underway now, and we will begin more extensive pilot program later in the year. Beyond innovation at the point of sale, we will continue to win in the marketplace by enhancing our fastest growing service offerings from e-commerce to EMV. And we will use our West Coast presence to partner or acquire new payments technologies when it makes sense, opening up opportunities for new products and profit pools in the future.

Finally, we will expand our international acquiring into new geographies that present favorable payments growth opportunities, taking a tried-and-true model of leveraging our processing platform and expertise, matched up with the brand and distribution of the financial institution partners. We have a strong prospect list in Europe, and we are looking to expand new acquiring ventures in Latin America with market launches later this year or the first half of 2014.

Given the last year's particularly strong quarter, this quarter's results should not be considered the new normal. As a Company, we are realigning our organization and investing in strategic geographies and technologies to take advantage of and be at the forefront of the evolution that is taking place in our industry. The changes we are making today are transformational and will position the Company for top-line growth in the future. With that, I will turn it back over to Chip, and we will be happy to take your questions.

Chip Swearngan - *First Data Corp - SVP, Communications & IR*

Thank you, Ray. We have two quick ground rules for the Q&A portion of this call. Please limit your questions to one question and one follow-up in order to be fair to all participants. As we approach the end of our time this morning, I will let you know when we have time for one final question. Vanessa, we are ready to take the first question.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)



We have our first question. It comes from the line of Ana Goshko with Merrill Lynch. Please proceed.

Ana Goshko - *Merrill Lynch - Analyst*

So I wanted to zero in on the areas where you had the most EBITDA pressure. So with the adjusted EBITDA down 5% year-over-year, that really came from the financial services segment and then also from the corporate and other. Then Ray or Ed, to zero in on your comments on what was going on in financial services, it was a 16% year over year decline. If I look back at the fourth quarter, it was down 8%. There was something that got incrementally worse.

And as I went through all your comments, you cite higher technology costs, divested business impact, customer deconversion, those were all things that are not new, that had -- that you'd cited in the past. So where I really see the incremental worsening trend is in the debit-issuer transaction, which as you cited, I think on slide 8, was down 1% organically versus up 6% last quarter. I just wanted to make sure I am understanding how you are losing that business. Is it an impact from the Durbin implementation? Or is it other competitiveness that is driving those declines in the debit issuer transactions?

Ray Winborne - *First Data Corp - EVP & CFO*

Taking your question, the second one first. If you look at the trend and the debit issuer transactions, a lot of that noise is in those Gateway transactions. But you are seeing some pressure on the organic growth and lost business within there. That is primarily happening in our community space, where we have continued to see competition ramp up over the last few years as the core processors have reached out looking for growth. That is a natural place for them to go.

We are putting in plans in place, changing our go-to-market strategy and tweaking it in order to combat that share loss that we are seeing in there. Net-net, we are putting more volume in, or putting about the same amount of volume in as going away, but we are seeing some compression to hold on to that business. As far as the trend deteriorating in FS as a whole and the EBITDA, some of what you saw quarter to quarter was the price concession that we provided to one of our customers in order to resolve a dispute. That is probably the largest thing I would tell you that is on a sequential basis driving that decline and the EBITDA.

Ana Goshko - *Merrill Lynch - Analyst*

Okay, so I have a second follow-up. On that price concession, it sounds like it was a very big customer. And wanted to know is that a one-time item that was a settlement in the quarter? Or is this is something that we're going to see ongoing in terms of the pricing on that contract.

Ray Winborne - *First Data Corp - EVP & CFO*

You hit it on the head. It is one of our largest customers, and we had a dispute, an ongoing dispute that we settled with them. That is a one-time item that we provided back in order to get that behind us.

Ana Goshko - *Merrill Lynch - Analyst*

Then just back to my original question on the trends in the debit issuer, so again, do you believe that even with the noise of the Gateway transactions that you site that you could actually, it feels like you are losing share? From a macro perspective, we have got increasing debit issuer transactions; however, your transaction volume is going down. Is that a trend that we should expect to see in the future, or can that start trending back up?

Ray Winborne - *First Data Corp - EVP & CFO*

Obviously, we believe we can start to have it trend back up. If you take those transactions as a combination of transactions within there, the STAR network as well as debit-processing transactions, I think you're pretty well schooled in what is going on with the network transactions within Star. We have held our own there. Shares bounced up and down post the Durbin implementation, but it has settled back again. Within the debt issuer of processing transactions, it is back to my earlier comment. It is really around the small community space, and we're putting in place now activities that will change that trajectory.

Operator

The next question comes from the line of Arun Seshadri from Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

Frank, congratulations. I look forward to working with you. Ed, your comments are much appreciated. Just a couple of questions. First, on the RAS side, I just wanted to understand the overall merchant volume attrition in this quarter and if you compare it to previous quarters. Then, generally speaking, the \$5-million one-time item, I would imagine that is one-time. If you confirm that and talk about how you could potentially improve the growth in acquiring overall?

Ray Winborne - *First Data Corp - EVP & CFO*

Compression this quarter was at the top of the range for many of the reasons that we have cited historically. But one in particular this quarter, nearly two-thirds of our transaction-volume growth in the quarter came out of national merchants. These are the largest retailers where our rate per transaction is the lowest. We believe that is continuing to be driven by consumers' continued search for value, just given the overall macro-economic conditions. We will continue to combat both of those, to the point I made on my call comments, with a multi-faceted strategy. And really the key to success there is better retention of our longer-tenured merchants, and then putting more new product into the base, which will raise our revenue per merchant.

With respect to the \$5-million uncollectible, yes, that's a one-time item. We had a customer that went bankrupt, and we did not have collateral against it. We do have a claim with an insurance policy that we have on that we hope to collect on. But given the uncertainty around that collection, we took the charge in the first quarter.

Arun Seshadri - *Credit Suisse - Analyst*

I appreciate that. The other quick thing I wanted to ask you was on international issuing, a bit of a drop off in growth, I think from positive to negative. Can you talk specifically about where that international issuing business weakness was? And just generally, what is your outlook in that part of the business for the balance of the year? Thanks.

Ray Winborne - *First Data Corp - EVP & CFO*

Actually the outlook is improving. We will be growing through those losses that we have taken in the last year as we progress through the year. The main reason you saw that change in trajectory was, as I pointed out, Asia-PAC. We had a large wholesale customer there that provides service on our platform, took it back in-house. So that one happened late in the year last year, so we are seeing that impact on a year-over-year basis. But beyond that one, we actually are seeing improvements and some pretty good opportunity in the pipeline on that issuing business.

Operator

Our next question comes from the line of Frank Jarman with Goldman Sachs. You may proceed.

Frank Jarman - *Goldman Sachs - Analyst*

Frank, you just had a baby quite recently. Just wanted to focus in here on the RAS segment. You guided earlier to revenue per transaction declines of about 3% to 5% on an annual basis. I think we saw a 5% decline this quarter, and you mentioned part of that is driven by the mix shift to national merchants. Is 3% to 5% still the right range to think of going forward?

Ray Winborne - *First Data Corp - EVP & CFO*

Yes, all of the things being equal, that is about the best guidance I can give you around that. As we've looked back over the last two or three years post-recession, there has been significant variability in where customers have spent, as well as the continuing trend in the industry to go away from spread-based pricing to more simplified pricing, such as interchange plus. We continue to see that pressure over time, and the real key is in getting more product in there to increase that revenue per merchant.

Frank Jarman - *Goldman Sachs - Analyst*

Thank you very much. Then if I could follow-up on the -- when we think about the new entrants and activity were by merchant size, have you seen any changes in the last couple of months that we should be aware of?

Ray Winborne - *First Data Corp - EVP & CFO*

Nothing I would tell you that's new in the past few months. We have seen both Square, Intuit, Mercury, several of these new entrants come in to the market. They have been focused on the smaller end, but obviously their plans are to go up market. And we will have a solution to that, to what I mentioned earlier. I am not seeing a significant revenue impact at this point, other than some of the pricing strategies that they put out in the market obviously make it a lot more transparent and puts pressure on the rest of the market.

Operator

Our next question comes from the line of Jake Kemeny with Morgan Stanley. You made proceed.

Jake Kemeny - *Morgan Stanley - Analyst*

Welcome, Frank. I just wanted to go back on some of the guidance that you gave. And first of all, I appreciate you guys giving some guidance on this call. Starting with RAS, you mentioned a moderate improvement in revenue in the second half over the first half. What about EBITDA? Should we expect EBITDA to track the revenue improvement as well?

Ray Winborne - *First Data Corp - EVP & CFO*

Yes, we should see flow through to EBITDA return back to more historic levels, 65%, 75% range.

Jake Kemeny - *Morgan Stanley - Analyst*

I'm sorry, what's the 65%?

Ray Winborne - *First Data Corp - EVP & CFO*

The flow-through on the revenue growth, it was a little low this quarter given the charge we took on the uncollectible. As the revenue grows the rest of the year, we should see a return to that more historical flow through to EBITDA in that 65% to 75% range.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay. The improvement in the second half, is that going to be up year-over-year as well? Or is it just second half versus first half of 2013.

Ray Winborne - *First Data Corp - EVP & CFO*

That is what I was actually referencing is that the year-over-year growth in the second half of the year will be a moderate improvement versus the year-over-year growth in the first half. Is that clear?

Jake Kemeny - *Morgan Stanley - Analyst*

Yes, so it's improvement in the second half versus first half of 2013.

Ray Winborne - *First Data Corp - EVP & CFO*

If the first half of the year grew 1% year-over-year, the second half of the year would grow 2%, 3%, 4%, something moderately better than that.

Jake Kemeny - *Morgan Stanley - Analyst*

Great. And then in terms of on the financial services business, the expenses that you incurred this quarter, are those going to be continuing? Or were those specific to this quarter?

Ray Winborne - *First Data Corp - EVP & CFO*

Those are primarily continuing expenses of running the business. But you will note in my comments, we are taking some actions at this point to reduce some cost in that business. So we are taking some of the structural cost out. As I have said on several of these calls, that is a relatively fixed-cost business. You have to take a little longer-term view looking at multi-year customer demand. It is not snapping your fingers and taking out variable cost. You have to be a little more thoughtful in what you're doing there. And that is why you see it for a couple of quarters up, and we will work that back down as we move through the year.

Jake Kemeny - *Morgan Stanley - Analyst*

What do you think the cost savings or the cost-rationalization opportunity is in the back half of the year?

Ray Winborne - *First Data Corp - EVP & CFO*

I'm not going to give any specific guidance on the amount of hedge or cost that we're taking out there. Back to my point, you should see the margins in that business get back to closer to what we were producing in 2012.



Jake Kemeny - *Morgan Stanley - Analyst*

Okay. Understood. Finally, on the international business, similar revenue trajectory improvement in the back half of the year. Should there be an equal or greater EBITDA drop through from that, as well?

Ray Winborne - *First Data Corp - EVP & CFO*

Yes, I don't see any changes in historical trend as far as the flow-through in the margins there. One thing to keep in mind as you look back at 2012 is a level of license revenue that we did get in that business. Of course, that revenue is extremely high margin, generally in the 95%-plus range. So we had an unusually high level of that in the back half of 2012.

Operator

Our next question comes from the line of Thomas Eagan with JPMorgan. You may proceed.

Thomas Eagan - *JPMorgan - Analyst*

I have two. First one is for Frank. Frank, my guess is as you were considering the job at First Data, you were doing your due diligence at the same time, I suppose, they were doing theirs. I wondered if you could just give us an idea of what your thoughts were about some of the opportunities and challenges that you saw coming into this business? Was or anything in particular, since you have done this before at Citi, was there anything in particular you saw that you thought might be ripe for an opportunity or might be a challenge that might be something you would have to take on early in your tenure there?

Frank Bisignano - *First Data Corp - CEO*

Yes, so, good to talk to you. I liked being a colleague of yours two days ago. Hopefully, you got my goodbye note. I think I start with the customers here, and I think it was validated to me even yesterday in many of the phone calls I had with the customers that there is an opportunity to further deepen those relationships. And about every CEO I talked to, talked to me about coming to see them and doing more businesses yesterday. So I thought that opportunity existed. It's one day in, but I feel validated.

The second is, I think as we work on bringing technology and process engineering into the environment, I think we can generate good, positive operating leverage. This is what I thought looking at it. I am not making a forward forecast here or a forward economic statement, but if you're asking me about what I thought when looking at it. I also think that this is a technology Company that can innovate. And it was beginning that thought process more than it had in the past, and how opportunities will be on the technological innovation side, some place I've spent a lot of my career on.

My decision-making criteria was 18,000 operations and technology people; 5,000 salespeople; millions of merchants; really a fine-run management team, from what I saw from the outside, had watched the Company for a long time. Going back to the days when Steve and Sandy Wilde spun it off and I worked for Sandy. My thing was good customer, good team, technology is a strategic advantage, long runway business. And you know when I told Jamie, that is what he said to me too. That is a long runway business. I feel better today than I did Sunday night, and I am ready to go work on the P&L.

Thomas Eagan - *JPMorgan - Analyst*

Great. Thank you. My follow-up is for Ray. Ray, you have done, speaking of runways, you have done a pretty nice job of building up a debt-maturity schedule with a very good runway. So, maybe one question I want to ask. The question is do you now take a breather, since you've only got the Holdco notes and the sub notes standing out there at 2016 maturities? Or given the fact that interest rates are so low, is that still a possibility that



you decide to do something with those notes sooner than later? And then the ask is, I know we've talked about this a few times in the past, and you have been somewhat reticent to make a commitment to giving it to the analysts, but I was wondering if at some point you could consider giving us what your restricted payments availability is, so that we can do a better job of probably evaluating what your options are? Thanks.

Ray Winborne - *First Data Corp - EVP & CFO*

Certainly. I still not going to give you that answer.

Thomas Eagan - *JPMorgan - Analyst*

I had to try.

Ray Winborne - *First Data Corp - EVP & CFO*

I would love to give you that answer. We obviously have our estimates and projections of that number. But as you know well, Thomas, you look, we have got the credit facility and 10 other indentures, all of which govern the different lien capacities and restricted payment. I want to stick to the top-level disclosure of the highest level is \$17.5 billion in secured debt. Beyond that, I am not going to go about slicing and dicing that other number.

Suffice it to say, we do have some capacity in the other secured liens. And does provide us some options to deal with both the sixteens as well as the PIK's. I do have to give by friends at KCM a little break every once in a while. But they don't get to rest much, we will stay busy with this. We will be opportunistic, and take advantage of the markets as they're opened. So, don't expect us to ever rest on our laurels.

Operator

The next question comes from the line of Jeff Harlib with Barclays. You may proceed.

Jeff Harlib - *Barclays Capital - Analyst*

Congratulations, Frank. Can you just talk about in both RAS and international, you talked about improvement in the second half. I'm wondering how much of that is macro, expected macro improvement and how much of it is specific product initiatives or market-share gains, for instance, internationally. Then just related to that, in terms of driving revenue growth, maybe you can talk about what the key new products are and the timing of attraction on those new products, including whether it is marketing loyalty solutions or other new products? I know that's a multi-part.

Ray Winborne - *First Data Corp - EVP & CFO*

Looking at your international question first, that business has been humming. The consolidated number on it looks a little muted, but you really have to look at it in two pieces, especially in EMEA. We have had great success there in the acquiring business with double-digit growth. It is being offset by some losses on the issuing side. And as you know on the issuing side of the business, there is a smaller number of customers and when you lose one it hurts. When you gain one, it feels really good.

As we progress through the year, you're going to see some of those headwinds from the losses on the issuing side start to fall away. So that will help there. We don't see any change in trajectory at this point. Again, barring another Cypress event or something like that affecting our acquiring business there. Back to my earlier comments, the trajectory for growth there is about new geographies. We have got a couple of deals in the hopper that we're looking to launch later this year into early 2014. And we have got a very strong prospect list in Europe that we're looking at. On the RAS business, as far as economic growth, we don't see any marked improvement versus the economic conditions we are facing today. The growth is



really looking back to a little bit of an easy comparable to last year, as well as the trends that we see going forward. There's not a lot of incremental growth coming off of the new product that I mentioned earlier with this platform in loyalty. We will be looking to launch that in a much bigger splash when we're really to do that. And that revenue will start helping us likely in '14.

Jeff Harlib - *Barclays Capital - Analyst*

Okay. That's helpful. My follow-up is on the cost savings. The cost savings picked up from \$151 million to \$178 million. Frank, it sounds like there's always been a focus on cost, but that may be accelerating. What are some of the areas I would say in and any quantification of the savings in the key areas and the potential additional cash restructuring?

Ray Winborne - *First Data Corp - EVP & CFO*

Right. You are right. You look at that calculation, I will remind you and everybody on the phone, that is a covenant calculation. So it is a gross number, and what we do is look at projected saves and actions that we have clear line of sight on that will generate savings over the next 12 months. That is not a net number. In other words, we could be adding resources in other areas, and that is not netted against a gross savings number. You are correct in your assessment; that savings number has gone up since the last quarter. And one of the primary drivers of it going up is some of the restructuring activity that I mentioned in my call comments.

Within that \$180 million or so of future savings, roughly \$30 million of that relates to our BAMs alliance with Bank of America, both revenue and cost synergies there. About \$15 million in additional procurement savings that we have taken; \$50 million in annualized rate around productivity gains and operational efficiencies. I call those more the run-of-the-mill on a \$4-billion expense base. But the last one is \$90 million in overhead and work-force reductions that we have in plan.

Jeff Harlib - *Barclays Capital - Analyst*

Okay. I guess my last question would be just the distributions verse net income in affiliates, that was neutral this quarter and it was a negative for 2012. Do you see a possibility of that being neutral in your cash flow?

Ray Winborne - *First Data Corp - EVP & CFO*

That is a complete coincidence that it's neutral. Because there are timing lags between the cash flows generated in those entities versus when it is distributed to us and the other owners. The reason it was negative last year is actually a positive answer or a positive item. We were generating working-capital improvements within those entities and distributing that cash, both up to our corporate coffers as well as the other owner. So the neutral, again I expect that to remain in that plus or minus range as we go forward. As we earn cash flow, we distribute it out.

Chip Swearngan - *First Data Corp - SVP, Communications & IR*

Operator, we're getting close to the top of the hour. I think we have time for one final question.

Operator

Thank you, sir. Your final question will be for the line of Manish Somaiya with Citi. You may proceed.

Manish Somaiya - *Citigroup - Analyst*

Congratulations, Frank.



Frank Bisignano - *First Data Corp - CEO*

Thank you.

Manish Somaiya - *Citigroup - Analyst*

I guess Ed has been a bit quiet, so I will just ask him a question. And maybe, Frank, you may want to contribute as well. Perhaps, Ed, if you want to touch on the Visa and JPMorgan-Chase partnership and what that means for acquirers and networks. Perhaps Frank, to the extent you can chime in and talk about the thought process there.

Ed Labry - *First Data Corp - President, Retail & Alliance Services*

Our take on it is that it seems like the natural progression of the industry that there's bilateral agreements that can be reached with large financial issuers and merchants. So I think that the way that I perceive this is this was an announcement of an issuing agreement more with Visa and the bank. So congratulations to Visa. I know they have been trying to staple this down for a while, is my take on it.

A lot of that other stuff is yet to be developed. I think that the foundations of banks and merchants working more closely together for potential lower interchange rates and/or rewards programs or card-redemption programs on specific issuers to specific retailers I think is going to happen and probably has been in the line of sight for a long time. And people have been trying to get there anyway. It is a lot yet to come there. Frank might be closer to it than I was.

Frank Bisignano - *First Data Corp - CEO*

I think you should talk to Gordon or Charlie about it really.

Chip Swearngan - *First Data Corp - SVP, Communications & IR*

Manish, do you have anything else?

Manish Somaiya - *Citigroup - Analyst*

I wasn't sure if Frank was going to elaborate.

Frank Bisignano - *First Data Corp - CEO*

That is the extent of me.

Manish Somaiya - *Citigroup - Analyst*

Okay. The other question that I had was when you look at the aggregators like Square and PayPal, they seem to be more focused on the larger merchants for the most part. Perhaps if you can talk about how First Data looks at the smaller merchants and perhaps the opportunities on the mobile-payments side? I guess what steps are being taken at this point to mitigate against some of these disrupters in the traditional markets?



Ray Winborne - *First Data Corp - EVP & CFO*

Manish, I assume you meant that they were targeting the smaller merchants; you said larger.

Manish Somaiya - *Citigroup - Analyst*

Right, okay. Sorry.

Ray Winborne - *First Data Corp - EVP & CFO*

They have, to date, they've actually focused on the micro, which has been a severely underserved market for a long time for a reason. It is very difficult to make money in that group of merchants. Obviously, the longer-term strategies are to move up market into their sweet spot and bread and butter with that \$50,000 to \$250,000-a-year merchant. We do have strategies. We've got our own dongle product. Our banking partners are also very keenly interested in this segment of the market, because little fish grow into big fish. So we are not ignoring this market at all, and will continue to serve it and enhance our product there as well. The real focus we have got right now is getting a very compelling point-of-sale product that ties in with this evolution with mobile into those larger-sized merchants and embedding that into our base.

Manish Somaiya - *Citigroup - Analyst*

Thank you.

Ray Winborne - *First Data Corp - EVP & CFO*

I need to answer one of Ana's questions I missed earlier in the call around Corp. and Other. Ana, you are right that there is little bit of an increase in the dilution year-over-year, about \$13 million increase expense year-over-year. Some of that we have got a government business which is primarily some consulting and call-center type work. The revenue is down in that. There's also some incremental IT projects and professional services that are, for the benefit of the whole Corporation, they are recorded in that segment. Then we had some higher incentive compensation payments based off of changes in our forfeiture rates. I would, for modeling purposes, use the low sixties to mid-sixties for the rest of the year for purposes of modeling that piece of the business. Sorry I missed that earlier.

Chip Swearngan - *First Data Corp - SVP, Communications & IR*

Thank you, Ray, and thank you, everyone, for joining us on today's first-quarter financial-results call. This concludes the Q&A portion of our call and concludes today's call. We look forward to talking with you in the future.

Operator

Thank you for your participation in today's call. This concludes the presentation. You may now disconnect.



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